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COMMONWEALTH OF MASSACHUSETTS

HOUSE No. 276.

Commonwealth of Massachusetts.

HOUSE OF REPRESENTATIVES, April 5, 1878.

The Committee on Railroads, to whom was referred the report of the Committee appointed at the last session of the legislature to report to the present session "what action it may be expedient for the State to take in relation to its investment in the stock and securities of the New-York and New-England Railroad Company," and also the petition of the New-York and New-England Railroad Company "for such action as the legislature might deem expedient for the interests of the State as the principal stockholder in said company," having considered the matter thus referred to them, submit the following Report.

The present condition of the company is as follows:—

PROPERTY OF THE COMPANY.

The New-York and New-England Railroad Company is in possession of and operates a railroad from Brookline to Woonsocket of thirty-four miles, from Boston to Willimantic of eighty-six miles, from East Thompson to Southbridge of seventeen miles, and from Islington to Dedham of two miles; making an aggregate of one hundred and thirty-nine miles of road now in the actual possession of the company.

It furthermore owns the Hartford, Providence, and Fish-kill Railroad, which extends from Providence, through Willimantic (at which point it joins the line now in the possession of the company), to Waterbury,—a distance of one hundred

and twenty-two miles. This portion of the road is now operated by the trustees under a mortgage made by the Hartford, Providence, and Fishkill Railroad Company; but the New-York and New-England Railroad Company owns more than three-quarters of the stock, and has the right, by contract, lease, and deed, to take into its possession and operate the said railroad upon removing the encumbrances thereon: so that practically it may be said that the New-York and New-England Railroad Company owns a completed and equipped road, in proper condition for its traffic, of the aggregate length of two hundred and sixty-one miles, extending from Boston and from Providence to Waterbury, Conn., or to within seventy-six miles of the Hudson River. It also owns the road west of Waterbury, upon which between three and four million dollars have been expended, but which, being unfinished, is entirely unproductive of income.

FINANCIAL CONDITION OF THE PROPERTY.

This property is subject to various mortgages and encumbrances, which, together with the floating debt of the company, amount, in the aggregate, to four million sixteen thousand six hundred and ninety dollars, as appears from the report of the Committee appointed by the last legislature. But by the application of subsequent earnings, and otherwise, the debt is now smaller; and the Committee are satisfied that all encumbrances on the whole line can be removed by the expenditure of four million dollars.

By the payment of this amount the Committee are assured that all encumbrances or liens upon all parts of the road would be removed, and the floating debt of the company funded; so that, by the payment of an amount not exceeding four million dollars, a clear and undisputed title would be acquired by the company, subject, however, only to the authorized mortgage bonds of ten million dollars, which the company propose to place in the hands of the treasurer of the Commonwealth as security for the advance asked from the State.

COMPLETION OF THE ROAD.

The committee are further satisfied, and it appears by the most ample evidence, that the road can be built in a thorough

and workmanlike manner from Waterbury to the Hudson River at a considerably less cost than two million dollars; but making due allowance for any mistakes in estimates, or for any unexpected cost of construction, or for any other obstacles or increased expense which now cannot be foreseen, the Committee estimate the cost of completing the road at the sum of two million dollars. Upon this incomplete portion more than three million dollars have already been expended.

The actual estimate of the cost of completion, as made by engineers, and experts in 1876, amounted to about sixteen hundred thousand dollars; and it is probable that the road could be constructed at the present time at a price even less than this estimate. These estimates, however, do not include the unsettled land damages, which would absorb about two hundred thousand dollars more.

We annex to this report a letter from George A. Parker, Esq., of Lancaster in this State, whose reputation as a civil engineer is well known, containing his estimate of the cost of completing the road, made after a careful and thorough examination, upon which estimate we think full reliance can be placed.

The Committee, therefore, have come to the conclusion, from all the evidence, that the road can be fully completed and equipped for the sum of two million dollars, and all encumbrances on it removed for the sum of four million dollars: so that, by the expenditure of six million dollars, a through line from Boston and Providence to the Hudson River can be secured, fully equipped, put in proper condition for a large traffic, and freed from all encumbrances.

It is also in evidence that the earnings of the whole road applicable to the payment of interest last year were a trifle over four hundred thousand dollars: and the Committee agree in the belief that the road is a perfect security for the six million dollars needed to fund its debts and to complete its road; and that, with its present business and earnings, it can earn and pay a reasonable rate of interest upon six million dollars.

We come now to consider the question, whether there is any special reason why the State should furnish any further assistance to the property; the Committee being of the opin-

ion that the day has gone by when the credit of the Commonwealth should be used simply to assist any railroad project, however meritorious. But it cannot be overlooked that the needed amounts can be secured from any source only by the pledge or sale of the company's mortgage bonds, and that the present interests of the Commonwealth in the property are too important to be subordinated to this new mortgage debt, if issued at prevailing prices for railroad securities. Nor can we forget, that if the largest shareholder, as well as the one best able, is unwilling to further invest to protect itself, private parties may well justify themselves in exacting the best terms they can make with the company for any advance of the money.

This brings us to consider the

POSITION OF THE STATE IN REGARD TO THE ROAD.

The present New-York and New-England Railroad Company has a capital stock of twenty millions of dollars, being the aggregate amount of the Berdell bonds, so called. By the action of the courts and the legislatures of the various States which have any control of the property, the title to it has been secured by the holders of the Berdell bonds, organized under the name of the New-York and New-England Railroad Company. By the provisions of the mortgage itself, these bonds were to be converted into stock; and those only who have received stock in exchange for their bonds participate in the earnings of the property. Five million seven hundred and thirty-five thousand dollars of the bonds have been converted into stock, and fourteen million two hundred and sixty-five thousand dollars in bonds remain unconverted; and, of the amount thus converted into stock, the State holds three million six hundred thousand dollars. But the only value of the bonds still outstanding is in their right to receive stock for an equal amount in the New-York and New-England Railroad Company.

The State, then, has already an interest in this railroad, and must be considered as owning as assets three million six hundred thousand dollars in the stock of the New-York and New-England Railroad Company, together with a note for two hundred and fifty thousand dollars, being the amount of a former loan by the State to said company. And its liability

up to the present time amounts to seven hundred and forty-three thousand six hundred pounds sterling in scrip, payable in London in the year nineteen hundred, which scrip was issued heretofore by the Commonwealth for the benefit of the Boston, Hartford, and Erie Railroad Company. The sinking-fund created for the purpose of the payment of this issue of scrip will be sufficient, with its accumulations, to pay the principal at maturity: so that the present and future liability of the State on any obligations now existing against it is the future interest on this issue, which interest amounts to one hundred and eighty thousand dollars annually.

The question before this Committee is therefore simply this: What do the interests of the State demand, considering that it owns this stock in the company, and is liable, until the year nineteen hundred, for the payment of this large amount of interest annually? It must be considered without regard to the past history of the property, or the mistakes which have been made by a former management. It is too late to consider whether it was wise or not for it ever to have assumed these obligations; or whether, the location of the road being in great part beyond the boundaries of the Commonwealth, it was entitled to original assistance. The only question now to consider is, how the State's interest can be best secured, and the road, if possible, made valuable, so that the State may be under no future liability.

And the Committee have considered this question only from the State's point of view. For, remembering the debt which it has incurred in connection with railroad enterprises, the Committee would not think it advisable for the State to render to any new enterprise any assistance whatever. If this was a question of that sort, and the State had not already a large amount of property invested in it, the Committee would have had no hesitation in coming to the conclusion that the money of the people should not be appropriated to the building of railroads, even though they, to a certain extent, may be regarded as public corporations. Upon this point, however, the views of this Committee are already before the legislature.

The fact remains, however, that, if nothing is done, there is before the State, during the next twenty-two years, an annual payment of one hundred and eighty thousand dollars:

so that the State, before the maturity of her scrip, will hereafter be obliged to pay (including interest on the expenditures) the aggregate sum of seven million seventeen thousand six hundred and eighty-two dollars. This represents what the citizens of the State are to be taxed for, and without benefit, if nothing is done. It is therefore desirable, if it is possible, for the State to secure itself against the loss of that sum, or of any further sums, even by the advance of money to further complete the enterprise, if necessary; provided there can be such assurances as shall render it absolutely certain, or as near absolutely certain as is possible, that the State shall be secured from further loss on either old or new account. We have considered this only as a public question, disregarding what the interests of the company, or other stockholders, or the public, as interested in railroad communications, demand, and have endeavored to ascertain what economy and a wise administration of the finances of the State require.

The question for consideration, then, is, What action shall the State take in the premises? Shall the stock be sold for what it will bring, and the loss made, whatever it may be? or shall it be held, trusting that time may in some way add to its value without any action by the State? Or shall any, and, if any, what, steps be taken by the State to save her loss already made in the payment of back interest, and to save her citizens the necessity of being taxed \$180,000 a year for twenty-two years to come?

To dispose of the stock of the State seems to us clearly unwise; and, in this connection, it must be borne in mind that this sale of stock by the State would not relieve it in any respect from its future interest liability. By no possibility could the State then be relieved of its burden; and, until the year nineteen hundred, it would continually go on making payments, which would in the aggregate amount, with the interest thereon, to over seven millions of dollars. We cannot see how the State could be in any manner benefited by any such course of proceeding.

Another proposition which has been suggested is, that the State shall advance the sum of four million dollars for the purpose of paying all the outstanding encumbrances and debts upon the road. Though this would place the company in a

more satisfactory position, by clearing up the title to all parts of the road, and giving to it possession of a line of track from Boston and Providence to Waterbury, we cannot recommend it as a wise solution. It is essential to the prosperity of this enterprise, in the nature of things, that it should not only have a road free from all encumbrances and liens, but that it should have a complete road to the Hudson River, so that it may not only be a local road, with the large local traffic which it will have along its line, but may have all those advantages for through traffic to and beyond the State of New York which the other western lines of Massachusetts have. It must rely on a through as well as a local business to enable it to prove a benefit to the community, and to yield an income to its owners. Nor would the corporation be justified in assuming the payment of interest on the old loans of the State, in addition to that to be paid on the four millions itself, as no provision would be made thereby for a completion of the road.

THE PLAN PROPOSED.

The proposition which the Committee deem most for the interests of the State is, that the Commonwealth shall advance an amount not exceeding six million dollars upon the security of the mortgage which has been already authorized, and upon the express condition that this money shall accomplish the two great objects desired by the company; viz.:—

First, To pay this gross debt of \$4,016,690, to enable it to take possession of the Hartford, Providence, and Fishkill Road, and the unfinished road-bed, and possess the whole property free from debts and encumbrances.

Second, To finish and equip the road to some point on the Hudson River, and thus secure communication with the West and South-West, and especially with the coal and oil fields of Pennsylvania. To accomplish this latter purpose, it is estimated that about two million dollars will be required.

The proposition of the company is, in brief, this: To borrow from the State six million dollars of its five-per-cent bonds, payable Jan. 1, 1900; to pay to the State the amount of interest which the State must pay upon the same, and also to assume and pay the interest hereafter due from the State upon its former loan,—namely, \$180,000 per annum,—until 1900, and to secure the State by a first mortgage upon

all its road-bed, equipment, and franchises. It also proposes that the money shall be applied directly by the agents of the State, and under its direction, to the payment of the debt, and the completion and equipment of the road; and that no moneys at all shall be raised or expended until the Governor and Council are satisfied that a good title can be made to the whole of the property, and that the debt can be paid, and the road completed and equipped, for this sum.

The result of this will be a line of railroad running from Boston to the Hudson River, thoroughly equipped for a through traffic, and with as good, certainly, if not better, facilities and connections for business, and chances for profit and for dividends, as any of the through lines running towards the West, and free from all encumbrances whatever, except a mortgage for ten millions of dollars in bonds, every one of which bonds is to be held as security by the State for its proposed advances of the six millions of dollars, and also as security for any future payments of interest on its old loan: in other words, the State will hold, without a partner, a ten-million-dollar bottom mortgage upon this railroad to secure it against any further liability whatever, either by the payment of interest or otherwise, on account of this road, and to insure that all payments by the State from this time henceforth shall cease; and a security for the repayment of the six million dollars, and interest thereon, as well as for the re-payment of future interest on the past issue of scrip, is thus acquired by the Commonwealth.

SECURITY OF THE LOAN.

The first and most important question which arises is, Will the security offered be sufficient to insure the safety of the principal and interest of the new loan? The company will be the owner, including branches, of 345 miles of railroad extending from the Hudson at the West to Boston and Providence at the East. The through line from Fishkill to Boston will be about 226 miles long; the through line from Fishkill to Providence, about 200 miles. It connects, at the West directly with the Erie Railroad, with its Western extensions and its branches, drawing from the coal and oil regions; and makes near connection with the Pennsylvania Central, and with the coal depot of

the Delaware and Hudson Canal Company at Rondout. Produce and coal starting from the point of production in cars can be transported across the Hudson on barges, and delivered to the purchaser in Massachusetts, Rhode Island, or Connecticut, without breaking bulk from the moment of starting. The through business will unquestionably be very large. On this point we had the testimony of Col. Cannon and Mr. Roosevelt of New York, who are gentlemen of high standing, and well qualified, from their position with regard to the Erie and the Delaware and Hudson Canal Company, to judge of the value of the Western connection. In the one item of coal the business would probably be very large. It is true that the road could not compete with water transportation at Boston, Providence, or Hartford; but the cost and waste of handling, the expense of insurance, and the cost of a short haul by rail, are so great, that it is confidently believed that coal can be delivered at any point twenty-five miles from these cities by railroad cheaper than by water, and thence by rail. The Connecticut Western Railroad, with the disadvantages of its high grades and sharp curves, which necessitates the use of a second "helping" engine on a part of its route, has delivered coal in considerable quantities at Rockville, a point east of Hartford, in competition with water transportation to Hartford; and the easier grades and curves of this road would enable it to carry much heavier trains with the same power, and consequently at less cost per ton. But, whether the expectations of the managers as to the coal trade east of Hartford are fully realized or not, it is evident, that, west of Hartford, there will be a large business in this product; and the transportation of oil, grain, and other Western and South-western products, it is believed, will be very great. These come from other sources in large quantities now over the Boston and Albany Railroad, and are carried at a profit. Mr. Appleton, the former chairman of the Railroad Commissioners of Massachusetts, in a report of 1865, says, —

"The other line from Boston to the Hudson River, the Worcester and Western, reports, upon the Worcester, curves of 600 feet radius, and, upon the Western, curves of 882 feet radius, and grades upon the Western of 83 feet per mile westward, and 75½ feet per mile eastward.

"The controlling grade of traffic upon the Boston and

Albany line is $75\frac{1}{2}$ feet per mile ; upon the Boston, Hartford, and Erie, it is $60\frac{3}{4}$ feet per mile, allowing an increase of load to the same motive power of nearly twenty-five per cent. The summit overcome by the Boston and Albany line on the Green-Mountain range is 1,450 feet above tide-water ; while the highest summit passed over by this line is, in the range between the Harlem Railroad and the Hudson River, only 753 feet above the tide at Fishkill."

On the line from Waterbury graded since that report, the grades going West have been allowed to reach eighty feet per mile ; while, coming East, they have been kept within Mr. Appleton's statement.

We have, therefore, going West, a grade upon the New-York and New-England of 80 feet against the Boston and Albany grade of 83 feet, and going East, in the line of the chief traffic, a grade of $60\frac{3}{4}$ feet upon the New-York and New-England, against a grade of $75\frac{1}{2}$ upon the Boston and Albany. With its connections with the West and South-West, and its grade facility for transportation, it is difficult to see why this line may not at no very distant day make as good a record for itself in through trade as the Boston and Albany. It is true, it will have no bridge across the Hudson ; but the Boston and Albany had none long after its through trade had become well developed : and a glance at the map shows how easily from Hopewell Junction a connection may be effected with the bridge already in progress of construction at Poughkeepsie, or the projected bridge at Peekskill ; while from Brewster, running over or parallel with the Harlem Road to Bedford Station, it is less than ten miles to Croton Point, but a few miles south of which is the northern terminus of a railroad making direct connection with the Pennsylvania Central. The immediate connection at Fishkill, and the prospective ones at Croton Point, Peekskill, and Poughkeepsie, certainly hold out promises for the future which need be realized in but part to make this road extremely valuable as a road of through traffic.

It is very certain that if other railroads, or combinations of railroads, which run from Boston to the Hudson River, can succeed, this road can succeed. We do not enter into the discussion here of the question, whether by its connection with the Erie and Pennsylvania Railroads, and especially

with the coal-fields, this road will have peculiar advantages in the way of through traffic. It is enough to say, that this road, with a through rail to the Hudson River, will have as good a chance of success as other railroads, and that if others can succeed, and pay interest and dividends, with a capital stock and debt of thirty million dollars, this road, at a cost of six millions, can certainly be a profitable road for its owner at that price, and in any competition can always earn money where other lines can live. This reasoning is on the assumption that the State, by being obliged to take this road at a valuation of six millions, or even ten millions, could not fail of making a good investment, and one which would in any event be profitable, and secure it against any loss on account of the advance proposed by the bill which the Committee report. In fact, even in its present incomplete condition, and with all the disadvantages under which it is laboring, the net earnings of the road for the year ending Sept. 30, 1877, amounted to more than four hundred thousand dollars; and it cannot be doubted, that, upon the completion of the road, it can not only earn a large additional income, but there is no reason why immediately thereafter its income should not be as large as the majority of the other through routes to New York.

Thus, so far as the earning ability is concerned, it seems to the Committee that there are sufficient assurances that an income will be earned by the road sufficient to relieve the State of all future liability; and that, in any event, the proposed security is ample.

It is very difficult to estimate the value of a railroad, independent of its income earning power; but, according to the Report of the Railroad Commissioners (in House Document, No. 325, of 1877), they estimate the value of the completed property of the New-York and New-England Railroad Company (including the Hartford, Providence, and Fishkill, and the road, when completed, west of Waterbury) at \$12,695,475: so that upon this valuation, which is an entirely conservative one, the Commonwealth would hold as security more than double the amount of its contemplated advance. All that the railroad will have to earn in order to hold the State harmless is four hundred and eighty thousand dollars a year; namely, five-per-cent interest on

the proposed new loan of six millions (which interest amounts to three hundred thousand dollars), and the amount now paid out annually by the State as interest, viz.,—one hundred and eighty thousand dollars; and to pay this amount will only require, over the net earnings of the last fiscal year, an increase of about one hundred thousand dollars per annum.

It may be proper here, in considering the prospective earnings of the road when completed, to examine the net earnings of existing completed roads, as shown by the Reports of the Railroad Commissioners of Massachusetts and Connecticut. From the Massachusetts Report for the year 1877, page 248, it appears that the average net earnings per mile of road operated by seventeen railroads of Massachusetts amounted to \$3,625; and by the Connecticut Report for the year 1877, page 85, it appears that the average net earnings per mile operated of the twenty-four roads of Connecticut amounted to \$3,477 per mile. The New-York and New-England Railroad, when completed, will be three hundred and forty-five miles long; and, if it should earn the average per mile of the roads of Massachusetts, its net earnings would amount to \$1,250,625 per year; and, if it should earn the average per mile of the roads in Connecticut, its net earnings per year would amount to \$1,199,565. It will not require one-half of either of these amounts to meet all the obligations of the company to the State.

OBJECTIONS CONSIDERED.

It was objected, however, by the majority of the Committee of last year, when before us, that the earnings of the New-York and New-England were simply nominal, and not real. No such objection was taken to the statement of the Hartford, Providence, and Fishkill; but it was said that all the earnings of the New-York and New-England had been and would be needed to be applied to its daily wants, and were not earnings which could be used to pay interest. The answer to this is threefold:—

First, The proposed outlay, if the estimates are reliable,—and we see no reason to believe them otherwise,—would add at once what might be needed to render further outlay unnecessary, unless business increased very largely; and, if it did increase, the profits upon the increase would supply the money needed for the additional facilities it demanded.

Second, The profits will, in our judgment, so much exceed the \$480,000, that the surplus over this will be more than is needed for this purpose.

Third, The use of this surplus was clearly explained by the manager of the road.

1. Interest	\$68,486.16
2. Money paid to pay off encumbrances	28,881.23
3. Reduction of floating debt	10,571.56

This was clearly surplus	\$107,938.95
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4. Profit and loss. This was a sum taken from the profits of the year, and applied to make good an account of \$30,000 which had stood upon the books for several years, and was now deemed uncollectable, and to pay off the expenses of old litigation (\$3,375.61), which was really an old debt	33,375.61
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	\$141,314.56

There was an expenditure for double track and improvements at Franklin, needed to make connections there, which was an extraordinary expenditure, and not likely to occur elsewhere or again, of	33,718.76
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	\$175,044.76

The only expenditure which could possibly be criticised, as one likely to occur again, is that of \$9,000 for new cars, which increased the direct value of equipment. All expenditures for road-bed, bridges, and repairs, were charged to operating expenses, and are not a portion of the surplus.

One mode of estimating the prospects of this road is by comparing the population and valuations of the cities and towns on its line with those on the line of the very successful Boston and Albany Railroad, by which it appears that the population on the line of the New-York and New-England Road is nearly eight per cent larger than that on the Boston and Albany Road, giving the Boston and Albany Road the benefit of the large city of Albany at its western terminus. And the valuation of the property on the New-York and New-England Railroad is more than twelve per cent

greater than that on the Boston and Albany Road: so that both population and valuation on the line of the New-York and New-England Railroad justifies us in expecting exceptionally favorable results, whether we consider the question of its probable success from the point of view of its local business, or of its through business, when finished. When the road constitutes a continuous line, under one management, from Boston to the Hudson River, and is brought into close connection with the Erie and Pennsylvania Railroads, can bring coal without transshipment from the mines of Pennsylvania to Southern New England, and can bring wheat and all the products of the West and South-West directly, and without breaking bulk, to all points on the line of this road and its connections, and to Boston and Providence and Worcester, it seems impossible, that under any contingency, or in any prostration of business or of commercial interests, this road can fail, unless, indeed, all railroad enterprises, no matter how small the capital, or how large the business, are to be unsuccessful.

CONCLUSIONS.

Believing that the loan desired is practically safe, and that thereby the State may reasonably hope to protect itself against loss in the future, save the annual tax of \$180,000 for the next twenty-two years, and secure a market for the nine hundred acres of flats owned by the State at South Boston, we feel it our duty to recommend the loan asked for. We do this wholly and entirely in the interest of the State, and with no other object than to save the money of its people. We deem it as legitimate for the State to protect its own interests as for an individual, and that it is our duty to recommend such a course as will enable it so to do.

The Committee, however, regard it as of the utmost importance that the State should continue to have the practical control of the management of the property. In the bill reported herewith we have provided for a board of three supervisors, to be appointed by the Governor and Council, who are to have the control of all expenditures made for the benefit of the New-York and New-England Railroad. We have provided that the treasurer of the Commonwealth shall retain all securities, and the proceeds from all scrip sold, until disbursed upon the warrant of the Governor, approved

by the board of supervisors, and paid directly by the treasurer of the Commonwealth to the parties holding either underlying liens or claims, or doing work under contract for the completion of the road.

We have provided a means by which the Commonwealth may hold as security every bond authorized to be issued by the New-York and New-England Railroad Company, and that the security shall be held not only for the payment of all future interest, whether upon the old loan or the new, but also for the fulfilment of an agreement to be made between the corporation and the Commonwealth, by which the supervisors shall have absolute veto power upon all actions of the directors, and the right to attend all meetings of the board. Thus we have not neglected the fact, that although the direction of the property is now absolutely in the hands of the State, inasmuch as it has always held a majority of the stock, it may not always remain so, but have looked forward to the time when the stock shall become dividend-paying, and, the conversion of other bonds following as a matter of course, the State might lose its control. But especially have we guarded the interests of the Commonwealth by referring the whole matter to a final revision by the Governor and Council, under a clause providing, that, before any scrip shall be issued, it shall appear to the satisfaction of the Governor and Council that a completed road, and one free from all other debt than that held by the State, shall be made absolutely sure and certain.

To sum up, the bill will, as security for the protection of the Commonwealth's interests, give, —

First, A guaranty that the road shall be fully completed.

Second, A guaranty that it shall be freed from all encumbrances.

Third, A bottom mortgage of ten million dollars on the road thus fully completed, and otherwise unencumbered, to secure the State against loss on a loan of only six millions.

Fourth, A control of the road, in the interests of the State, by agents of the State, having a full supervisory control of the action of the directors.

Fifth, A guaranty that none of the appropriations shall be expended, unless it shall appear to the satisfaction (1) of the Governor and Council and (2) of the supervisors that all the above objects will be accomplished.

Sympathizing fully with the general disinclination which exists in the minds of the legislature and of the community to engage in any railroad enterprise, we have, nevertheless, become convinced, by long and careful investigation of the matter before us, that, as a financial question, the interests of the State will be best subserved by the passage of the bill herewith submitted.

The Committee therefore report the accompanying Bill.

ALBERT PALMER,

Of the Senate.

NATHAN M. HAWKES,

NAHUM CHAPIN,

HENRY H. WILDER,

FREDERICK P. MOSELEY,

PAYSON E. TUCKER,

Of the House.

I concur, in the main, in the foregoing Report, particularly in the statement of the policy which denies State aid to new railroad enterprises. A plan has been suggested of a consolidation between the Boston and Providence Railroad and the New-York and New-England Railroad, the interests of these railroads being to a certain extent identical. This, in my opinion, is the true solution of the question; because the entirely unnecessary expense of double terminal facilities and a double staff of officials could thereby be avoided, and both lines be brought under one management. Should such a strong corporation be formed, it would be able to raise the requisite amount of money for the completion of the line without recourse to the State treasury. This scheme is not, under present circumstances, practicable. The bill of the Committee has for its sole purpose and object the relief of the tax-payers of the State from further payments on account of the last-named railroad. The Governor and Council must be satisfied that it will accomplish that purpose before any expenditure is made under its provisions. I have confidence enough in the success of the proposed plan to put the power to act in the hands of the Governor and Council. In view, therefore, of the end sought to be attained by this bill, and of the safeguards embodied in it, I propose to give it my support.

CHARLES S. OSGOOD.

Commonwealth of Massachusetts.

DISSENTING REPORT.

The subject presented for the consideration of this Committee is concisely stated in the language of the order of the last legislature ; viz., “ What action it may be expedient for the State to take in relation to its investments in the stock and securities of the New-York and New-England Railroad.”

In order to an intelligent discussion of this question, it is necessary to understand exactly what those investments are, and how they now stand. In 1867 the State borrowed money on its own scrip, and loaned the same to the railroad, to the amount of thirty-six hundred thousand dollars, taking bonds of the Berdell mortgage, so called, to an equal amount as security. In 1870 the railroad failed, and the bondholders took possession of the road, and organized the present corporation. The Berdell bonds issued and outstanding amounted to twenty million dollars, and, under the terms of the mortgage, were convertible at the pleasure of the holder into an equal amount of stock. Only about six millions has as yet been converted by the holders into stock, leaving about fourteen million dollars in Berdell bonds yet outstanding, the holders of which are entitled at any time to come in and take stock instead. The State has converted its bonds into stock, and therefore holds thirty-six hundred thousand dollars of the stock of the road. At present this is a majority of the stock, and the State controls the management of the road ; but there is nothing to prevent the rest of the Berdell bondholders at any time from taking the stock to which they are

entitled. When this is done, the State will own only about three-twentieths of the stock, — far too small a proportion for any effective control of the policy of the road.

The stock has never been productive, and is not likely to be at present. The State therefore has to pay the interest on the money it borrowed to invest in the Berdell bonds, and receives nothing in return from the stock which those bonds represent. This interest is a hundred and eighty thousand dollars annually. The principal of the loan was, at the time of its creation, provided for by a sinking fund, which, without doubt, will be sufficient to meet the principal when it becomes due. The condition of the State with reference to this investment, therefore, is briefly this: It must pay a hundred and eighty thousand dollars a year until the year 1900, having to reimburse itself nothing but the remote expectancy of dividends upon its stock.

The practical question that addresses itself to the legislature is, Can any thing be done to stop this annual drain upon the treasury? Any proposition looking in this direction deserves the most careful consideration; and it was to a scheme to accomplish this end that the attention of this Committee, as well as of the Special Committee of the last legislature, was drawn.

The railroad corporation made a proposition to that Committee, and renewed it before us, which, if accepted by the State and carried out by the railroad, would entirely relieve the State of this annual interest-charge. This proposition may be found in full in House Document, No. 2 (1878), pages three, four, five, and six. The gist of the proposition is, that the State shall borrow six million dollars upon its own scrip, lend the money to the railroad, and receive the obligation of the railroad to pay not only the principal and interest of this loan, but also the hundred and eighty thousand dollars already spoken of, all secured by a first mortgage on the whole road.

About four million dollars of the money borrowed is to be expended in paying the debts of the company, and the balance in completing the road to the Hudson River; and it is hoped that the result will be that the stock may thus be eventually made more valuable, if not productive.

The State can borrow money for five per cent. On six

million dollars this would be three hundred thousand dollars annually; which, with the hundred and eighty thousand dollars, would make the amount of the railroad's annual obligation four hundred and eighty thousand dollars, or eight per cent on the amount borrowed of the State. In other words, the State borrows six million dollars at five per cent, and lends it to the railroad at eight per cent; and the profit of the transaction covers the amount of the present annual loss by the State.

Nothing can be simpler in theory. The proposition, if carried out, would undoubtedly meet the difficulty. The questions which suggest themselves, however, are, first, Is the security good? and, second, Is it expedient as a matter of public policy for the State to go into the transaction? These questions are largely independent of each other in their nature; and either, answered in the negative, should be conclusive against the acceptance of the proposition.

As to the security of the proposed new loan, and the ability of the road to perform its obligation, it is impossible to speak with certainty, except to say that the present earnings of the road are not sufficient, by considerable, to meet the four hundred and eighty thousand dollars. The surplus of receipts of the whole road over the regular operating expenses, which is the most favorable way of reckoning for the railroad, amounted last year to about four hundred thousand dollars,—not nearly enough to meet the proposed annual obligation. Even this balance was all expended on account of the road. Part of it went to pay interest and reduce the debt, and the rest in various permanent improvements in the road and its equipment. If this loan is effected, there will be no other interest to pay; and the management claims that there will not be that necessity for expenditures on the road in the future that there has been in the past: so that the whole surplus will be available towards the four hundred and eighty thousand dollars required to be paid the State. But, as already suggested, the whole of the present net income, taking it in the most favorable way for the road, is not enough to pay the interest on the proposed loan. Whether it will be or not, is wholly a matter of speculation.

The corporation claim, that, when they have a through

line to the Hudson River brought all under one management, the increase in their net income will be far more than enough to meet the interest which they will have to pay the State. On the other hand, there are many men, whose judgment is not lightly to be rejected, who assert that the road from Waterbury to Fishkill will not be profitable, that it will open no through connection of any value as compared with the existing lines, and that the local business on that part of the road will be of no value. The whole matter was very thoroughly investigated in 1870 by the Committee on Railroads of that year, and the opinions of railroad experts differed widely in the matter. This Committee has investigated the matter as thoroughly as possible; and, with the information possible to obtain, we are inclined to the opinion, that with judicious management, such as the road now has, the earnings will be likely to be more than sufficient to meet the interest which the road will have to pay the State. In other words, for a loan of six million dollars, even at eight per cent, the road completed to the Hudson River, and well and honestly managed, might probably be a sufficient security.

But there are some considerations of a general nature which cannot be overlooked in deciding upon the security of this loan.

First, The success and value of a railroad depend very largely upon the honesty and ability of its management. Experience here and elsewhere has shown that in no department of business are skill and shrewdness more vitally necessary than in the management of a railroad, or where it is more difficult to guard against corruption and dishonesty. The present management is undoubtedly able and upright; but they hold their offices by a very uncertain tenure, and the Berdell bondholders can at any time dispossess them. The interest of the Commonwealth is not large enough to control the management. There was a provision, it is true, in the bill submitted to the Committee, for a Board of Supervision, which should exercise a veto upon the action of the Directors. Admitting that such a Board could be created, without concurrent legislation of all four of the States in which the road is situated, — which is not at all clear, — it can easily be seen, by any one at all conversant with railroad mat-

ters, that such a provision falls far short of an effectual check upon fraud or mismanagement.

Secondly, Nearly three-fourths of the line of the road is wholly outside the limits of the State. The aid of the State has never been granted to a road, any considerable portion of which is without the State, with the exception of this road and one other, — the Norwich and Worcester Railroad. To place the interests of the State so largely within the control of other States is not good policy, and may be very unsafe. Especially would this be the case if by any contingency the mortgage should be foreclosed. The possibility of the State's being obliged to operate a railroad running through three other States, is, to say the least, not pleasant to contemplate.

Thirdly, The proposition of the company does not provide for a sinking fund for the repayment of the loan. It has been the wise and uniform policy of the State to require such a security in nearly every loan which it has made; and it is a matter of very serious question, whether that policy should be abandoned even in a single case.

Fourthly, There is another consideration, which, though perhaps not affecting security of the loan, yet is a matter of much importance in this connection. The managers are confident that six million dollars will be all that is needed to put the road in good running order throughout its whole length. They may be correct; but the uniform experience of the State is, that, when it gets involved with a railroad enterprise, it is obliged to spend much more money than the original design. The Western Railroad started with a State loan of a million dollars; but, in two years, it came after two million dollars more, which it received. The very next year it applied for, and received, a million dollars additional; and finally, two years after the last-named loan, the State was obliged to put in seven hundred thousand dollars to complete the road. The Hoosac Tunnel is even a more striking illustration. In 1854 a loan of two million dollars was made to build the tunnel, on the representation of very able and estimable men, that, with so much assistance from the State, the project was entirely feasible. Twenty-five years have elapsed, fifteen million dollars have been spent, and the State is not yet done with the business. With such conspicuous examples before them, your Committee are slow

to believe that the present loan may not be the entering wedge to an expenditure by the State, which, if asked for in one sum, would be at once refused. It is much easier to refuse this loan than it will be to stand aloof when the State has become as thoroughly identified with the interests of the road as the sum now asked for will necessitate.

But, without assuming to decide upon the security of the loan, the undersigned are of opinion that the controlling considerations in the case are those of public policy. It is very doubtful if the taxing of the people or the loaning of their credit for the furtherance of any private enterprise is one of the proper functions of government; but, as the State has heretofore assisted not only this but several other railroad enterprises, it is worth while to examine briefly the reasons which have led to such a policy, and see if they apply here. The first assistance to a railroad was in the year 1836. In that year the State subscribed for one million dollars of the stock of the Western Railroad; and, in subsequent years, further loaned the road in all about four million dollars more. In an exhaustive report written by the late Gov. Emory Washburn, recommending the loan, the legislative Committee expressly based their action upon the paramount importance of the road in a commercial point of view to the State. The Committee, in that report, say, that "such is the progress of improvement at the present day, that Massachusetts cannot afford to be without this work. Its accomplishment is identified with her present well-being and future progress and prosperity." They expressly refrained from making the measure a financial one; for they stated that it is "obvious that the work has a greater reference to the public good than the emolument of its private stockholders."

Other railroads received the aid of the State, during the years from 1836 to 1840, upon the same grounds of public policy. The object had in view by the State was constantly expressed to be the promotion of its commercial prosperity and importance, either by the development of its internal resources along the lines of the railroads, or the opening of new and important lines of communication with other States. Railroadings was then in its infancy; and there seemed to be good reason why the State, having in view the development

of its commerce, should use its credit to aid and stimulate private enterprise in the direction of railroads, the profit of which as investments were then wholly problematical. Such undoubtedly were the considerations which led the State to embark upon the policy of assisting railroads; and this policy has controlled its action in every case up to the present time. After 1840 no State aid was granted until the year 1854, when the Hoosac Tunnel was commenced. The object of the State in all its dealings with the tunnel has always been the development of the commercial relations of the State with the West, rather than the hope of any pecuniary profit from its venture. No other loan has been made to a railroad, excepting that to the Boston, Hartford, and Erie Railroad in 1867, which was made with the same purpose in view.

We find, then, that the sole ground of investment heretofore has been the promotion of the commercial prosperity, internal and external, of the Commonwealth. It is very questionable whether even such an object can justify the State in thus aiding what are, after all, but private enterprises. The Bill of Rights thus defines the functions of the State: "The end of the institution, maintenance, and administration of government is to secure the existence of the body politic, to protect it, and to furnish the individuals who compose it with the power of enjoying in safety and tranquillity their natural rights and the blessings of life." Thus, in the compact on which the government of the State is based, its objects were clearly defined, and its scope strictly limited. With these words before us, it is difficult to see how the Commonwealth has any business with railroading at all, even if the object be the prosperity of the people; and it is probable that the framers of that compact of government little thought of such an application of its functions.

But, granting that the end justifies the policy, does the application of this railroad present such considerations? We think not. It is not a case where a new section of the State is to be developed by the location of the road. But a small portion of this railroad lies within the Commonwealth; and every dollar of the loan not used in paying the debts will be expended outside the State, and within the borders of, and for the local benefit of, a State that has never given any thing to the road. Nor is it a case where the interests of the State re-

quire a new line to the West. With the Boston and Albany line, the Hoosac Tunnel line (which is soon to make an independent connection with the Erie Road), and the Ogdensburg and Grand Trunk system, there is no possible danger that the State or the people will suffer from monopoly or insufficiency of communication with the West; and it was demonstrated as long ago as 1870, at the hearing before the Railroad Committee, that this line, when completed, will possess no important advantages, in grades, distances, or efficiency of connections, over either of the other trunk-lines. The managers, moreover, assert that the road is to be completed in any event; if not by the State loan, then with the proceeds of the mortgage already authorized. Whether that is so or not, it is evident that its immediate completion cannot be regarded as a matter of such public importance to the people of the State as to authorize a further loan of its credit for that reason only.

It follows that the only considerations which have heretofore been regarded as justifying the investment by the State in railroad enterprises are wholly wanting in this case.

But if the loaning the people's credit to a railroad be of doubtful policy, when the object is the development of the resources of the State, what shall we say when it is for speculation and profit only? Yet such is exactly the proposition under consideration. It is proposed that the Commonwealth of Massachusetts shall furnish money to complete a railroad in Connecticut and New York, and pay the debts of the road, — an enterprise as opposed to the proper functions of a great body politic as light is to darkness; and that it shall do this for the reason that it can borrow money at five per cent, and the railroad will pay it eight per cent, and the difference is a profit. Its accidental and unfortunate ownership of three-twentieths of the railroad does not change the case in the slightest degree as a matter of public policy. That ownership is simply the undesired result of a previous loan to the road, made, not with a view to any such result nor pecuniary profit, but solely on account of the supposed importance to the State of the completed road. Although technically an ownership, it represents simply the old loan; and there is no call upon the State, by reason of its nominal position as owner, to assume any of the responsibilities or duties which

usually attach to ownership. Notwithstanding a portion of the stock is in the hands of the State, it remains true, that for the State to go into this new investment puts it in the position of a mere railroad speculator; and, if the result of the speculation should be financially good, yet the dangers of the bad precedent, thus for the first time set, would far outweigh in importance any possible pecuniary gain that could result from its speculation.

A mortgage necessarily implies possible foreclosure. But can any thing be imagined more disastrous to the State than to become the owner by foreclosure of a railroad over three hundred miles in length, running through four different States, with all its interests, financial and otherwise, committed to the care of the officials of the Commonwealth? The possibility of such an event is of itself sufficient to deter the State from adopting a measure which contemplates even contingently such a misfortune.

To sum up the case, we have on the one side a possible — it would perhaps be fairer to say, a probable — saving of a hundred and eighty thousand dollars per year. Against that we have to put an actual increase in the State debt of six million dollars; the engaging by the State in a business totally foreign to its legitimate and proper functions; a precedent of legislation set that can only work injury; a door opened for further demands upon the treasury, not only by this but by other enterprises, which can scarcely be closed again; to say nothing of the disastrous possibility that the State may be compelled by any circumstances to take possession of this road; and the danger of indissolubly connecting the Commonwealth with a railroad enterprise, to the extent of the whole present value of the road, which railroad is subject to the contingencies of hostile legislation in three different States.

The annual loss of a hundred and eighty thousand dollars, — about one-tenth of the present State tax, — continuing for twenty years longer, is not a pleasant thing to contemplate; but it is far preferable to the commitment of the State to a policy so unwise, so unsafe, and so fraught with evil results.

As the stock possesses but little present value, the undersigned see no reason for recommending its sale at the present time. We therefore report that no legislation is expedient in the premises.

HOSEA M. KNOWLTON,
Of the Senate.
RUFUS A. SOULE,
Of the House.

Commonwealth of Massachusetts.

MINORITY REPORT.

Boston, April 5, 1878.

We the undersigned, a minority of the Committee on Railroads, not being able to agree with our associates, the majority of the Committee, upon the question of State aid to the New-York and New-England Railroad, therefore most respectfully submit our views upon that subject. We have given the case careful attention, and we confidently trust we can give good and sufficient reasons for our decision.

First, We think that the time has come for the State to decline to loan its credit in the construction or purchase of railroads, and that such policy should be fully and openly declared by the legislature; and this question has been so well stated by the Railroad Committee to this legislature, in a Report made in the case of the Boston and Poughkeepsie Railroad (House Document, No. 138, on pages 4 and 5), that we feel justified in quoting from that Report, believing it to be applicable to the case under consideration. The Committee there say, —

“The experience of the State in railroad-building, and in loaning its credit to others to build railroads, has, in the main, been a bitter one; and to-day the tax-payers of the State are called upon to pay the annual interest on over \$20,000,000 so expended, with absolutely no reduction of transportation-charges as a consequence of the expenditure. In the early days of railroad-building, the assistance of the State may, perhaps, have been necessary to induce private capital to enter an untried field of operations; but to-day no such necessity exists. Massachusetts capital has built railroads in the West, with the inducement of, at best, a very moderate return in the shape of dividends; and, if a railroad nearer home promises a like return, there should be no difficulty in securing the funds necessary for its construction. If a railroad cannot be built to-day without aid from state, city, or town, it is, as a rule, sufficient evidence that it should not be built at all. The State has no money but what it raises by taxation from the people; and, with the present

railroad service of the State, there would seem to be no reason why all the tax-payers of the State should be compelled to subscribe towards building a railroad to which, in their private capacity as citizens, they decline to contribute."

This doctrine here quoted from the Report was the judgment of the Railroad Committee as a whole, not merely the opinion of a minority: therefore the majority of the Committee who now report in favor of a loan to the New-York and New-England Railroad should convince the legislature, before asking the adoption of their views respecting the proposed loan, that it is a case which justifies the exception of a good rule and the violation of a sound principle; and we hope the legislature will hesitate before they trample upon and discard a doctrine they have so recently indorsed and approved of.

We are here, as members of the legislature, to legislate for the whole people of the State, and to carefully guard and protect the interests of the Commonwealth, and, in the expenditure of money, should remember that it is the people's money, the people's property, the homes of all, — rich and poor alike, — that we must protect; and we have no moral right to impose a burden of taxation upon the people not actually necessary, and for the greatest good of the greatest number. But it is claimed by a majority of the Railroad Committee that the proposed loan is justified by the fact that the State has already \$3,600,000 invested in this railroad, and that this new loan is in the line of protection of the State's ownership in this road.

If it can be actually demonstrated that the State can, by granting this loan, secure and make the previous investment valuable, then, and not till then, can any reason be found to justify the proposed loan. And even then there are good arguments against the proposition; for we hold it is no part of the legitimate duties of the State to own or operate railroads, and that the injury to any State in engaging in such work is not wholly to be computed in money. It breaks down barriers, it establishes bad precedents, and it serves to demoralize, and discourages private capitalists in legitimate enterprises. Under monarchical forms of government, it may succeed to engage in business of various kinds; but, under our republican form of government, it is to be hoped we have not drifted so far from our moorings as to operate railroads, build factories, and sell merchandise, in the name of the State.

We believe it should be the policy of the State, so far as practicable, to sever its connection with all railroad enterprises, and in no event to assume new burdens in that direction.

The New-York and New-England Railroad, the successor of the

old Boston, Hartford, and Erie Railroad, comes here, by its officers and managers, to invoke aid from the State: it is for this legislature to say whether we shall hazard the sum asked for or not. The history of this road is familiar to all. While we have no special criticism to make as to its present officers and managers, we do claim that the old managers of the Boston, Hartford, and Erie Railroad, in former years so presented their case to a Massachusetts legislature as to induce the State to invest \$3,600,000 in its bonds, which bonds were afterwards converted into stock in the new corporation known as the New-York and New-England Corporation; and this stock held by the State has paid no interest or dividends, and its market-value is very slight. But the State is obliged to tax the whole people of the State annually to the extent of \$180,000 to pay the interest on the loan, and there is no escape from it. We must continue to pay this interest (\$180,000) each year, until the bonds mature, when it is supposed the sinking-fund already established for that purpose will be sufficient to pay the principal.

No one will deny but that the State was deceived or misled when that loan of \$3,600,000 was made. Are we wiser and more sagacious than the legislature of 1867?

Shall the State invest more money in an enterprise where sagacious private capitalists refuse to invest a single dollar?

May not coming legislatures criticise and condemn our action in the proposed loan as freely as we do the action of the legislature of 1867?

The scheme in 1867, we must assume, appeared plausible; but it proved to be disastrous to the State. Are we now to adopt plausible theories, and admit ingenious arguments made by interested parties, as true? In short, is it safe, is it wise, for the State to loan its credit for \$6,000,000, or any other amount, to any railroad company wherein private capitalists refuse to invest? We think not. We refer for particulars and details relative to this corporation to certain legislative documents within the reach of all the members. We wish every member of the legislature would thoroughly examine the Special Report of the Railroad Commissioners (House Document, 325) of the year 1877; also the Report of the Joint Special Committee of the legislature of 1877, which Committee investigated the subject, and reported to this legislature, their Report being House Document of 1878, No. 2.

We do not deem it necessary to reprint these documents as part of our Minority Report, but trust that such members as have not already examined these documents will do so before they vote to loan the State's credit for any sum in aid of this corporation; and

we shall content ourselves with a general statement of the case as understood by us.

The New-York and New-England Railroad proper runs from Boston to Willimantic, Conn., a distance of eighty-six miles, main line, and from Brookline, Mass., to Woonsocket, R.I., thirty-four miles; branches from East Thompson to Southbridge thirty-four miles, and from Islington to Dedham two miles. It also operates the Norwich and Worcester Railroad, partly in Massachusetts, and partly in Connecticut, sixty-six miles.

This, at present, comprises all the road operated by the New-York and New-England Railroad Company. It is claimed, and we do not know as it is seriously disputed, that said company also own the equity of redemption of the Hartford, Providence, and Fishkill Railroad, extending from Providence, R.I., to Waterbury, Conn., a hundred and twenty-three miles (no part of it in Massachusetts), upon which there is an underlying mortgage of \$2,000,000 and over. And it also appears there are other encumbrances or claims, about which there is dispute; and it is understood the question is before the courts in Connecticut or Rhode Island, or both. We are not sufficiently advised to give an opinion as to the extent of these other claims, or as to the probable results in the courts or elsewhere: we simply know claims are made by shareholders of preferred stock and of common stock, and that whoever shall pay off the \$2,000,000 bonds of Hartford, Providence, and Fishkill Railroad, would be reasonably sure of a lawsuit. The managers of the New-York and New-England Railroad assure us that the amount involved is not large, and that it is not to be considered as a serious encumbrance; but the parties and their attorneys making the claim insist that their claim is valid. (See Railroad Commissioners' Special Report, 1877, House Document 325, page 5.)

The New-York and New-England Railroad also is the owner of the franchise from Waterbury, Conn., to Hopewell Junction in New York, and to extend to the Hudson River. A large amount of money has been expended upon this part, from Waterbury westerly sixty-five miles to Hopewell Junction; and it is *estimated* that \$1,600,000 would complete it.

We have not great faith in estimates where the State's money is to be used. The estimated cost of the Hoosac Tunnel and the estimated cost of the Danvers Hospital are fresh cases in point where estimates are not always to be relied upon.

The western termini of this unfinished proposed road are not definitely settled: Fishkill, Poughkeepsie, and Haverstraw are named. And, before knowing to which point on the Hudson the road is to end, we are unable to discuss the question properly;

but suffice it to say the New-York and New-England Railroad is to run from Boston to the Hudson River, crossing the Hartford, New Haven, and Springfield at Hartford, then crossing the Housatonic Railroad and the New-York and Harlem before reaching the the Hudson River.

The question which suggests itself is, Will it pay the State to invest in it? If it will, why do not capitalists and railroad-men invest their money there? As to the unfinished portion, we do not believe, if it was to be completed, that it would be worth what it would cost; for there is now a railroad known as the Connecticut Western, running from Hartford westward, with connections to Poughkeepsie, not twenty miles from, and nearly parallel with, this proposed road; and the Connecticut Western is a bankrupt road. The people who furnished the money to build this road are fully convinced that no road from Hartford to the Hudson River can be profitably operated if built.

This whole subject was examined by the Joint Special Committee of the legislature, and reported upon in document heretofore referred to (House Document, No. 2, 1878).

The managers of the New-York and New-England Railroad present their case with great ingenuity, and an array of figures and computations as to the present value of their property now completed, as well as the prospective value of the proposed and unfinished portion when it shall be completed as a whole. They also show great ingenuity in presenting their statement as to the earning capacity of the road now in operation. They ask us to be satisfied with their showing, and to accept their conclusions, and express great confidence as to the future. But it seems they have not been able to convince private capitalists that it can be made a good investment (for we are not aware that State Street has shown any symptoms of furnishing the money to complete the road), but simply content themselves with speculating in the old Berdell bonds,—practically gambling on the chances of a new loan by the State to this railroad company, which might temporarily advance the price of a bond now almost or quite worthless in reality. And we are aware of the fact that great influence is attempted in furtherance of a loan by the State for selfish ends: it is practically gambling on the votes of this legislature; and men whose pockets are filled with Berdell bonds are pressing upon members to vote for the proposed loan.

We refer to documents as to the earning capacity of the road now operated by the company. It is an old saying, that "figures will not lie;" but we are convinced that figures do not always tell the whole truth, and the last few years have convinced all of us

that figures on paper are not always to be relied upon. The great shrinkage in railroad stocks and bonds since 1873 has ruined many people, and they are now of the opinion that figures may lie; and we will simply cite the State's investment of \$3,600,000 originally in the Berdell bonds.

We refer specially to the House Document, No. 2, of 1878, heretofore referred to, showing earning capacity. And even in this there may be some errors; for it would be impossible for that Committee to know, of their own knowledge, all the facts; and the way in which railroad books are sometimes kept in other cases have served to mislead, if not to deceive. We make no charges in this case; but, when it is claimed by the managers that there has been a net gain for the last two years, we say it is not proven. The charges to extraordinary expenses, perhaps, should have been classed as ordinary; for we find in the last Annual Report of the company, they claim that the surplus net earnings for the year ending Sept. 30, 1877, were \$70,521.60. But we also find that the company charged off to property-account during the same time \$71,200.04; so that the assumed surplus was more than exhausted in what is claimed as improvements. There is no surplus available for paying debts or interest; for we find that by the treasurer's report, Sept. 30, 1877, cash on hand was \$7,820.86. As a rule, cash on hand is a good test of ability to meet obligations.

The earning capacity of the New-York and New-England Railroad, and of the Providence, Hartford, and Fishkill Railroad, being fully stated in the Report of the Joint Committee (House Doc., No. 2), we feel justified in the statement, that it furnishes no such security as would justify a prudent man to loan money upon to such a corporation, relying upon net earnings to pay either principal or interest, though by an ingenious mode of book-keeping credit balances might appear. We invite a careful reading of the document referred to, that each member may judge for himself.

We do not believe that a loan of \$6,000,000 even will relieve the New-York and New-England Railroad Company of its present wants, and therefore cannot agree with the majority of the Committee on that point; for there are no provisions for purchasing terminal facilities and depot-grounds in Boston, as the Company are now paying, as appears by their Report, \$55,000 annually as rental for depot-grounds; and, if a purchase was to be made, a large sum would be required, — from \$500,000 upwards, — and the cry would be, “We must borrow more money from the State for that purpose.”

Nor do we admit as true the statement as to other encumbrances and floating indebtedness; and we feel fully justified in saying that

a loan of \$6,000,000 will not give the relief desired by the Company, but simply serve as an argument for another loan by the State.

Therefore we claim that the road, as now operated, cannot justify the loan of another dollar of the State's money. Not one dollar of interest has been paid on the \$3,600,000, the original loan; and this railroad company owe the State \$250,000 besides for money borrowed and overdue. And we say the State was misled and deceived in the original loan; and that, in the last loan of \$250,000 to the present railroad company, this company has not redeemed its promises.

It is, moreover, wholly beside the question, whether the security offered in this case is sufficient, or otherwise. Even though it were sufficient in the hands of private parties, in those of the State it is not. A private party can and will enforce the letter of the bond: the State notoriously cannot. Massachusetts, at least, it would seem, should have had recent and bitter experience on that point, — something not at once to be forgotten. The vast outlay for the Hoosac Tunnel was incurred on the strength, in part, of a contract gladly entered into by the Fitchburg Railroad Company, that, when it was completed, the State should receive from that road twenty per cent of the receipts from all business coming to it because of the tunnel. No sooner, however, was the tunnel secure, and the contract pressing, than the railroad company repined at its severity, and secured its abrogation, — secured it for the mere asking.

So it will be again in the present case. Let the bond be forfeited, and the State will be called upon by an interest hard to oppose, and upon grounds which no legislature will resist, not to enforce its obligations. The Commonwealth, it will then be urged, should not be a usurer. The unfortunate private partners had acted in good faith, and had merely over-estimated their ability. To enforce the penalty would be cruel, — the act of a Shylock, — and the penalty will not be enforced. As between the State and its private partners, these contracts are not equal: they have but one side to them. They are binding only against the State. It has always been so. It will assuredly prove so in this case. When it does prove so, the undersigned may be allowed to express a hope that this prediction will not remain uncited.

The various documents and reports heretofore referred to may be found by all members, and by the public, and we ask for a careful examination; and, before any member shall vote in favor of the proposed loan, we desire he may have a full and complete understanding of the whole case.

We have become entirely satisfied that it is not wise to loan one dollar more to the New-York and New-England Railroad Company; for, suppose the loan was to be made upon the terms and conditions of the bill, who can foresee or foretell the results?—the State of Massachusetts the principal owner in a railroad located in four different States, subjected to the action of four different legislatures in the passage of laws, and to four separate courts as to the interpretation of the law. Suppose the road shall finally be constructed to the Hudson River by the State money, and the company, the mortgagors, shall fail to meet its obligation, and the State is compelled to foreclose its mortgage, take possession and operate the road: then we may find Massachusetts contending with the legislatures and the courts of Rhode Island, Connecticut, and New York, the State operating a railroad in New York, the State owning barges, ferry-boats, and docks and wharfs, on the Hudson River.

Such a state of things might be advantageous to the cunning and shrewd railroad-managers, who might see a chance to profit by it; but citizens of Massachusetts do not wish to see the State a party direct, or by trustee, to lawsuits, or before judges for hearings for injunctions.

We claim, that, as the proposed terminus of the New-York and New England Railroad is the Hudson River, if the road should be completed, there would then be a call for additional aid to go farther; for as yet there is no bridge across the river at Poughkeepsie. And, if the proposed road shall run to Poughkeepsie, we predict there *will be no bridge constructed* for the present, and that the State of Massachusetts will be implored to furnish the money to complete it; for the city of New York has no special interest in the bridge.

And the argument will then be at this State House: The State now has nearly \$10,000,000 in the road, and the bridge will give it life.

If the road is to end at Fishkill, there can be no bridge. Here the company must cross the river by ferry, or on the ice; for the river freezes over at this point. When across the river from Fishkill to Newburgh, the company can connect with a branch of the Erie Railroad now being operated by a receiver; and it cannot now be known by whom that bankrupt road is to be operated in the future. For aught we know, it may be entirely controlled in the interest of New-York City. Wealthy citizens and railroad men of New York appeared before the Committee, urging Massachusetts to build this road,—men whose great interests are in New-York City. It was not love for Massachusetts, or a pride and interest

in the commercial prosperity of Boston ; but it was something else ; for, if the investment is so safe as represented, they would invest some of their own now idle capital therein. But no : they say it will be good for Massachusetts.

We desire to call special attention to the Report of the Legislative Committee of 1867 (House Document, 299, of that year), to be found in the legislative documents of that year (may be found in the library and in any of the committee-rooms of the State House). This Committee reported in favor of a loan of \$3,000,000 to the Boston, Hartford, and Erie Railroad. This was the entering-wedge ; this was the fatal step : and in the light of to-day it is interesting to read what that Committee said eleven years ago. This Report is too voluminous to reprint ; but we do ask members to read it. We will quote from it briefly, as occasion may require. The Committee conclude their Report as follows : —

“Your Committee have given this subject careful examination and mature deliberation ; and we arrive at the result, that, in whatever aspect we view the petition, its request seems reasonable, and the State cannot afford to deny its prayer.

“As a public and a *financial* measure it meets our approval ; and we therefore unanimously recommend the passage of the bill.”

This was a bill granting aid for \$3,000,000 ; and the legislature enacted it, and it became a law eleven years ago. We have been trying to realize that this was a good financial measure. While the State has been obliged to raise by taxation \$180,000 annually to pay the interest on the loan it made for this purpose, not one dollar has been returned to the State treasury by the railroad company.

This Committee also said, on page 18 of their Report, “No scrip shall be issued until the Governor and Council shall be satisfied that the company by itself, or by aid from other sources than the Commonwealth, will be able to complete its road from Boston to the Hudson River.” — See Laws of 1867, chapter 285, section 7.

The scrip was issued. The road was *not* and is *not now* completed. So much for provisions in a bill “to the satisfaction of the Governor and Council.”

The testimony seemed to convince that Committee that the following was a correct estimate of the gross receipts of the road ; and we copy it *verbatim* from that Report, page 11 : —

Local freight and passengers	\$2,365,000 00
Iron ore and iron	360,000 00
Lumber	375,000 00
Stock	75,000 00
Through freight	1,180,000 00
Through passengers	150,000 00
Coal	1,650,000 00
Petroleum	180,000 00
<hr/>	
Total	\$6,335,000 00

"Other witnesses agree substantially with these statements, and also that the fair estimate of expense of operating a road, of the alignment and curvatures of this, is sixty per cent of gross earnings. Assuming this to be a fair and correct estimate of business, there would be left, to pay interest, taxes, and dividends, \$2,534,000."

Then, on page 22 of said Report, this loan is urged as a *war* measure; and we feel constrained to quote from it at length. Upon that point the Committee there say, —

"It has been further urged that it is wise, in times of peace, to prepare for war. It was asked, Suppose, at the time the charter of the Boston, Hartford, and Erie Railroad was granted (1863), the opinion of a large class of our citizens had been verified, and we had had a war with England on account of her conduct in the matter of the great Rebellion, and our Atlantic coast and Long-Island Sound had become the scene of naval warfare: how would New England have been supplied with coal? And, without coal, what would have been the effect upon our people? And to-day no new or better avenues for the carriage of coal exists from the mines to New England than existed in 1863. If water-carriage should be cut off, we do not see how considerable inconvenience, to use no stronger language, could be avoided. This road runs directly to the coal-field; has an entire interior communication in no way affected by what is passing on the water, whether obstructed by ice, storm, or war; and can go on, day by day, winter and summer, supplying all the demands of our people for that indispensable article of personal comfort and industrial success.

"Again: should foreign navies hover on our coast, and, running in their swift craft, cut away, and burn or destroy, the bridges or tracks of the railroads on the line of the Sound, to prevent the sending of troops and munitions of war to any place they might design to attack, here lies a road too far in the interior to be reached by them, and yet so near the coast, that, with the north and south roads crossing its trunk line, every place of any note can be brought within a very few hours of New York and Boston; and so it will form a military highway for coast-defence, of hundreds of miles in extent."

We will not quote further from this remarkable Report; but we do advise the members of the legislature to look at it and to read for themselves.

However carefully guarded the bill reported by the Committee may appear, rest assured that the passage of the proposed bill

will involve the State still deeper in debt and in trouble ; and, when we find the State has \$10,000,000 invested, the cry will surely come for more money, more aid, — we must build or complete the Poughkeepsie Bridge, or we must aid the railroads west of the Hudson, or we must put fresh capital from the State treasury into the old bankrupt Erie Railroad. We should not be unduly influenced by interested parties, whether dealers in the Berdell bonds, or paid agents and officers of the New-York and New-England Railroad. We believe it is our duty, as legislators, to say “ No ” to this proposition. If we must lose \$3,600,000, better lose it than to lose \$10,000,000. But, with proper management, we shall get something from the \$3,600,000 ; and the necessary authority should be granted to the Governor and Council to dispose of the State’s stock at such time and manner as shall be deemed advisable by them. Therefore we trust the bill proposed by a majority of the Committee will not become a law, but that it will be rejected by the legislature.

LEWIS N. GILBERT,
Of the Senate.

J. N. DUNHAM,
Of the House.

Commonwealth of Massachusetts.

AN ACT

To secure the Interests of the Commonwealth in the
New-York and New-England Railroad.

*Be it enacted by the Senate and House of Representatives
in General Court assembled, and by the authority of the
same, as follows :*

1 SECT. 1. The governor, with the advice and con-
2 sent of the council, shall appoint three persons, who
3 shall constitute "The Board of Supervisors of the
4 New-York and New-England Railroad" [and who
5 shall hold their offices for the terms of one, two,
6 and three years, respectively, from the dates of their
7 respective appointments. The governor shall in
8 like manner, in each year thereafter, appoint a super-
9 visor, to continue in office for the term of three years
10 from the date of his appointment. In case of any
11 vacancy occurring in said board by resignation or
12 otherwise, the governor, with the advice and consent
13 of the council, shall appoint a supervisor for the
14 residue of the term; and he may, in like manner,
15 remove any of said supervisors. The compensation
16 of said supervisors shall be fixed by the governor
17 and council, which compensation shall be paid by

18 said railroad company. Said supervisors shall be
19 sworn to the faithful discharge of their duties, and
20 shall keep a true record of their doings and pro-
21 ceedings, and shall make an annual report thereof
22 to the legislature. Said board shall have the con-
23 trol of all expenditures made in accordance with
24 the provisions of this act; and the governor is hereby
25 authorized, on the application of said railroad com-
26 pany, approved by order of said board, to draw his
27 warrant on the treasurer of the Commonwealth for
28 such sums as may be required, from time to time, to
29 carry out the provisions of this act]. Said board
30 may act, by a majority thereof, at any meeting of
31 the same of which all the members have been duly
32 notified. Said supervisors shall, at all times, have
33 free access to all the books and accounts of said
34 railroad company.

1 SECT. 2. The treasurer of the Commonwealth is
2 hereby authorized to receive from said New-York
3 and New-England Railroad Company nine million
4 six hundred and twenty-four thousand dollars of the
5 bonds of said company, secured by its mortgage to
6 the Boston Safe Deposit and Trust Company, trus-
7 tee; and is authorized, with the consent of the gov-
8 ernor and council, to purchase out of the sums
9 hereinafter appropriated three hundred and seventy-
10 six thousand dollars of bonds now outstanding and
11 secured by the same mortgage, provided said bonds
12 can be obtained at a reasonable price, together being
13 ten millions of dollars, and being the whole issue of
14 bonds authorized to be issued by said New-York and

15 New-England Railroad Company by chapter two
16 hundred and eighty-nine of the acts of eighteen
17 hundred and seventy-three, approved May fifteen,
18 eighteen hundred and seventy-three, and concurrently
19 authorized by chapter five hundred and fifty of the
20 laws of eighteen hundred and seventy-three of the
21 state of New York, entitled "An Act to extend
22 the time for the completion of the Boston, Hartford,
23 and Erie Railroad by the New-York and New-Eng-
24 land Railroad Company," approved May twenty-one,
25 eighteen hundred and seventy-three; and by the
26 general assembly of Connecticut, by an act approved
27 May twenty-nine, eighteen hundred and seventy-three,
28 entitled "An Act concerning the New-York and
29 New-England Railroad Company;" and also by an
30 act passed by the general assembly of the state of
31 Rhode Island at its May session, eighteen hundred
32 and seventy-three, entitled "An Act concerning the
33 New-York and New-England Railroad Company:"
34 and the treasurer is hereby directed to hold the same,
35 when delivered to or if purchased by him, as se-
36 curity for the performance of the agreements here-
37 inafter referred to.

1 SECT. 3. No expenditure whatever shall be made
2 under this act until an agreement shall have been
3 executed by the New-York and New-England Rail-
4 road Company to the Commonwealth in a form
5 approved by the attorney-general of the Common-
6 wealth, and conditioned that the said railroad com-
7 pany shall [pay to the Treasurer of the Common-
8 wealth, on the first day of January, in the year nine-

9 teen hundred, the sum of ^{five} six million dollars, or so
10 much thereof as shall be expended under the pro-
11 visions of this act, and shall further pay to said treas-
12 urer the interest on all sums so expended, at the rate
13 of ^{five} five per centum per annum, such payments of in-
14 terest to be made semi-annually]; and that said rail-
15 road company shall pay all the interest that may fall
16 due after the first warrant shall have been drawn by
17 the governor as provided in the first section of this
18 act, and thereafter as the same shall fall due, on
19 certain scrip heretofore issued by the Commonwealth,
20 which consists of five-per-cent sterling bonds to the
21 amount of seven hundred and forty-three thousand
22 six hundred pounds sterling, payable in London in
23 the year nineteen hundred, being the scrip issued for
24 the benefit of the Boston, Hartford, and Erie Railroad
25 Company; nor until said New-York and New-Eng-
26 land Railroad Company shall deliver to the treasurer
27 of the Commonwealth, as security for the perform-
28 ance of the conditions of said agreement, the nine
29 million six hundred and twenty-four thousand dollars
30 in the bonds referred to in section two of this act;
31 and the said outstanding three hundred and seventy-
32 six bonds, if possession thereof is acquired by the
33 state, as provided in section two of this act, shall by
34 the terms of said agreement be held as a part of
35 the said security by the Commonwealth.

1 SECT. 4. No expenditure whatever shall be made
2 under this act until an agreement shall have been
3 executed by the New-York and New-England Rail-
4 road Company to the Commonwealth, by authority of

5 the stockholders and directors thereof, at meetings
6 duly held for the purpose, in a form approved by
7 the attorney-general of the Commonwealth; that the
8 said supervisors shall be notified by the clerk of said
9 company of all meetings of the directors of said
10 company by the same notice as that given to the
11 directors; and that said supervisors may be present
12 at all meetings of the directors of the company;
13 and further conditioned, that no vote or proceeding
14 of the directors of said company affecting the ex-
15 penditure of the money herein appropriated, or the
16 security to be pledged therefor, shall be valid or have
17 any force or effect ~~if~~ ^{unless} said board of supervisors shall,
18 upon the day of any meeting at which the same
19 shall have been passed [or on the next subsequent
20 day], notify in writing the directors or the president of
21 said company of their dissent from any such vote or
22 proceeding; and conditioned further, that the de-
23 posit of bonds, referred to in section two of this
24 act, shall be pledged and held as security also for
25 the performance of the agreement referred to in this
26 section, and that the said bonds shall be thereupon
27 absolutely forfeited to the Commonwealth, to the
28 extent of paying its said indebtedness incurred on
29 account of said railroad company, in case, by any ac-
30 tion of said railroad company or otherwise, the terms
31 of this agreement shall be in any manner impaired,
32 or there shall be any violation of the provisions of
33 this act without the consent of the Commonwealth.

1 SECT. 5. Said board of supervisors is hereby
2 directed, as soon as possible after its appointment,

3 upon the application of the New-York and New-
4 England Railroad Company [~~and with the consent~~
5 of the governor and council], to apply and expend
6 of the amounts hereinafter appropriated the sum of
7 ^{two} ~~four~~ million dollars, or so much thereof as may
8 be necessary to the payment and discharge of
9 the indebtedness of said company, including the
10 note for two hundred and fifty thousand dollars
11 of the said New-York and New-England Rail-
12 road Company now held by the Commonwealth,
13 and to the payment and discharge of all exist-
14 ing mortgages and other debts which are now
15 a lien or encumbrance upon the property of the
16 New-York and New-England Railroad Company,
17 ~~including all encumbrances upon the Hartford,~~
18 ~~Providence, and Fishkill Railroad, so called,~~ to
19 the end that the New-York and New-England
20 Railroad Company may perfect its title to and
21 acquire the actual possession of all parts of its road,
22 and hold the same subject only to its mortgage to the
23 Boston Safe Deposit and Trust Company, trustee,
24 hereinbefore referred to. Any assignments or re-
25 leases of any of said mortgages, and all conveyances
26 or instruments in writing, made for the purpose of
27 perfecting the title of the said New-York and New-
28 England Railroad Company as aforesaid, shall be
29 made to the said New-York and New-England Rail-
30 road Company; but said supervisors shall stamp upon
31 all bonds or other evidences of debt, at the time of
32 payment thereof, the words, “Held by the New-York
33 and New-England Railroad Company for security of
34 title only; not transferable:” and the same shall

35 never be transferable by said company. And said
 36 board of supervisors are further directed, upon the
 37 application of said railroad company [and with
 38 the consent of the governor and council], to apply
 39 and expend of the amounts hereinafter appro-
 40 priated the sum of ^{one} ~~two~~ million dollars, and any
 41 residue of said sum of ^{four} ~~four~~ million dollars not re-
 42 quired for the purposes aforesaid, or so much thereof
 43 as may be necessary, to the ^{extension} ~~completion~~ or building
 44 of said New-York and New-England Railroad from
 45 ^{South Waterbury} ~~Waterbury~~ in ^{Connecticut} ~~Connecticut~~ to the Hudson River, and
 46 to completing, equipping, and putting in proper con-
 47 dition for use, a through line of railway from Boston
 48 and Providence to the Hudson River: ^B ~~provided, how-~~
 49 ~~ever~~, that no portion of said ~~two~~ million dollars shall
 50 be expended until contracts shall have been made by
 51 said railroad company with responsible contractors,
 52 approved by said board of supervisors [and by the
 53 governor and council], for the completion of ^{new} ~~the~~ lines
 54 of road from ^{South Waterbury} ~~Waterbury~~ to the Hudson River, within
 55 a period of ^{two} ~~one~~ year from the date thereof, and at
 56 a cost not exceeding said ^{three} ~~two~~ million dollars. ^{to the} ~~the~~

1 SECT. 6 For the purpose of securing the inter-
 2 ests of the Commonwealth in the New-York and
 3 New-England Railroad by providing for the comple-
 4 tion thereof ^{as provided in sec 5} ~~to the~~ Hudson River, and the removal
 5 of all encumbrances upon the road, except that to
 6 be held by the Commonwealth as aforesaid, the
 7 treasurer of the Commonwealth is hereby authorized
 8 and directed to issue scrip or certificates of indebt-
 9 edness in the name and behalf of the Common-

10 wealth to [such] an amount [as will realize a sum]
11 not exceeding ^{five} ~~six~~ millions of dollars, said scrip to
12 be redeemable January first, in the year nineteen
13 hundred, with interest warrants attached at the
14 rate of ^{seven} ~~five~~ per centum per annum, and to be
15 made payable in such places and in such manner
16 as the governor and council shall decide. All
17 said scrip shall be countersigned in such manner
18 as the governor and council shall designate, and
19 the faith and credit of the Commonwealth is here-
20 by pledged for the redemption thereof; and the
21 sum received from the issue and sale of said scrip
22 is hereby appropriated for the purposes expressed in
23 this act. All said scrip until the sale thereof, and all
24 the proceeds derived therefrom until disbursed in
25 accordance with the provisions of this act, shall re-
26 main in the custody of the treasurer of the Com-
27 monwealth. The governor and council are hereby
28 authorized to take all necessary measures for the
29 preparation of said scrip or certificates of indebted-
30 ness, and for the sale or negotiation thereof from
31 time to time, with authority to expend such sums
32 of money as may be necessary for the purpose:
33 *provided, however,* that, before any scrip shall be issued
34 [or any appointment or expenditure made] under the
35 provisions of this act, it shall appear to the satis-
36 faction of the governor and council that by said
37 appropriation and expenditure the state will secure
38 the removal of all liens or encumbrances on the
39 entire line of road from ^{by clause} ~~Boston~~ and Providence to
40 ~~the Hudson River~~, saving only the mortgage to the
41 Boston Safe Deposit and Trust Company hereinbe-

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42 fore referred to, and will further secure the com-
 43 pletion of said road ^{as provided in sec. 5.} from Waterbury in Connecticut
 44 to the Hudson River, so that the New-York and New-
 45 England Railroad Company will have a perfect title
 46 to and acquire the actual possession of said entire
 47 line of road; and that said Railroad Company will
 48 be able to make the payments referred to in section
 49 three of this act; and that said Railroad Company
 50 can make valid and binding the agreement set
 51 forth in section four of this act.

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 1 SECT. 7. This act shall take effect upon its pas-
 2 sage.

*C from Boston to the Connecticut River in Massachusetts, from
 E. F. Johnson to Billington in Conn. & from Boston
 to Newburgh in N.Y. and a contract by lease
 or otherwise which shall secure a line in its own
 interest from Boston through Southbridge Palmer and
 South Amherst Massachusetts to the Hudson River*

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APPENDIX.

HEARING

BEFORE THE COMMITTEE ON RAILROADS OF THE MASSACHUSETTS
LEGISLATURE, ON THE REPORT OF THE JOINT SPECIAL COM-
MITTEE OF 1877, ON THE NEW-YORK AND NEW-
ENGLAND RAILROAD.

Boston, Feb. 8, 1878.

THE CHAIRMAN. The Committee are ready to continue the hearing on the Report of the Committee on the New-York and New-England Railroad. The purpose of the hearing this morning is to listen to the views of the members of the Committee who presented this Report. We desire, for our benefit and instruction, to get the views of the individual members of the Committee; and should be pleased to hear from Mr. Stone.

Mr. E. F. STONE of Newburyport, member of the Committee of the New-York and New-England Railroad of 1877. I was one of the Committee appointed last year to consider what action it may be expedient for the State to take in relation to its investments in the stock and securities of the New-York and New-England Railroad, and did not happen to concur with my associates. I was one that dissented from the opinion of the majority. I supposed that the Committee might prefer to hear from the majority of the Committee to know the reasons which influenced them to report as they did. But as it may be said that their reasons may be found in the Report, and as I simply dissented, without giving reasons for my dissent, if the Committee desire to know why I did not quite agree with the Committee, I do not object to stating why I did not.

I felt, Mr. Chairman, as if it was very desirable if some scheme could be devised to save the State from loss, which clearly would occur in the event of things going on as they are now; and the State has to pay, as it will have to pay, the annual interest of one hundred and eighty thousand dollars a year until the termination of the loan, being some twenty-two or twenty-three years. As you know, gentlemen, the principal is provided for. The principal of the loan of thirty-six hundred thousand dollars made by the State is provided for; but there is no provision for the payment

of interest. The interest, being an annual expense, will, in the aggregate, amount to a very large sum. I have not computed it personally; but I asked Mr. Goodspeed, the accountant of the Railroad Commissioners, to compute it. The simple computation, so much a year for the years now to elapse, is a very easy thing to reckon; but the entire amount that will have to be paid by the State is not far from eight millions of money, computing the annual payments, with interest on those payments from year to year.

That is a very considerable sum; and the question, of course, which ought to be considered by the legislature is, whether any expedient can be found by which that can be saved. Now, it was represented last year to the Committee on Finance by the president of the New-York and New-England Road — The matter originated somewhat in this way: The president of the New-York and New-England Railroad Company, in an interview with the Finance Committee last year, stated in brief what the condition of this road was, and the condition of the State's interest. He appeared to have a very strong feeling that there was considerable value in this property, and he thought, with proper management, the State might save the sum which it had invested in it. He seemed to be so earnest about it, seemed to be so thoroughly sincere and honest in his conviction as to what was best, that he made considerable impression upon the Committee on Finance, certainly he did upon me; and we reported an order to the effect that it was expedient for the State to make some inquiry into the value of this road, and whether some scheme might not be devised by which the property might be saved. In pursuance of that order the Committee was appointed that served through the recess.

It appeared in the hearings that this property had been improving, manifestly improving, for a series of years; that it has suffered a great deal from mismanagement in times past, but for the last few years it has been managed wisely; that the business of the road has increased. Although the expenses of administration were considerably more than the Committee thought they ought to be, yet it was not denied that the general administration of the road was satisfactory, and that the business of the road had very considerably increased. Upon the evidence which appeared, and statements made, a comparison of the reports, and conference with the officers of the road, and conferring with other parties as to the value of the property, — the trustees of the Hartford, Providence, and Fishkill Road, — and from all the sources of information which the Committee were able to obtain, I think it was generally felt, on the part of the Committee, that the property

had considerable value. I for one (and I don't know : I think the Committee agreed in that), — I for one thought the property was of such value that it was good security, ample security, for a considerable loan of money in addition to the present loan upon the road. So I personally thought it was possible to make an arrangement with the directors of this road, with the stockholders of this road, by which the State could lend to this enterprise money enough to relieve it from its present indebtedness, and put it in a condition where it could do a good business. Upon that question the Committee differed. In my judgment, after a careful comparison of different sources of revenue, after a careful estimate of the value of the road, I thought the property was ample security, as it now stands, for a loan of five millions of money. I have no doubt, whatever, that the property as now administered in its present condition is good security for five millions of money. And, being of that opinion, my own disposition was to make a loan to this railroad company, of, say, four millions of money, upon the present property, upon the road as it is now established ; not attempting to deal with the question as to what the income might be with the extension of the road to the Hudson River.

And my desire was, — and I might say here, gentlemen, that that proposition which is stated in the Report I suppose substantially originated in me, for which of course, as has been said, the railroad company is in no respect responsible, — my proposition was to make a loan ; but the details were not worked out carefully, because it was not considered on the part of the Committee a wise thing to do. My feeling was, and my desire was, to make a loan to this company, upon the present road, of four millions of money, upon the ground that the present property, judging by the past, taking the last three years as a basis, — that the present property is ample security for that amount. And inasmuch as the property, as it has been administered within the last three years, under a condition the most unfavorable for railroad management, under the bad state of trade, at a time when railroad property was generally very unprofitable under a bad internal condition, with the road in the hands of two or three different parties, and of course more or less conflict of interest, more or less conflict of policy, and more or less unnecessary expense incident to the administration of a twofold road, for this road is substantially a twofold road, from Boston to Willimantic on the one side, and from Providence to Hartford on the other, and under two different managements, — under such conditions, and under circumstances very unfavorable, the trade, the actual doings, of the road for the last three years, I think, justifies a valuation of five millions of

money. And, being of that opinion, I was willing to make a loan to that amount, believing that by such a loan the road would be relieved from its embarrassments, put under one administration, and in a condition to develop its business, and to extend, if necessary, its road to the Hudson River.

Now, in regard to the soundness of that judgment, as to whether or not the property is worth five millions of money. That is based upon the actual results of the road as they appear from the Report of the Commissioners. This Report, which was made by the Railroad Commissioners some years ago (if you examine that with any care, you will find that the Report is quite trustworthy, and is not prepared in the interests of the railroad company: it is manifestly prepared, manifestly written, with a view, on the part of the Railroad Commissioners, of protecting the interests of the State), — there is nothing to be found in that Report which would give any person an unjust estimate of the value of that property: on the contrary, if any thing, there is manifestly extreme care on the part of the Commissioners, of whoever prepared the Report. I suppose Mr. Adams wrote it. It was evidently written very carefully in order not to convey to the State the idea that the property has any value beyond what in my judgment it clearly had. So he manifestly was quite careful not to give any opinion, or to give any impression, which would not be fully sustained by the facts. Now, judging from that exhibit made by him, it is very clear that the property between Hartford and Providence and Fishkill is worth considerable more than the mortgage upon it. It is safe to say, — I have not looked over the figures recently, and therefore cannot state with the accurateness I should like to, — it is safe to say that the property of the Hartford, Providence, and Fishkill Railroad, is certainly worth one hundred thousand dollars a year more than the interest upon the encumbrances. We found when we were in Hartford (we went there specially to have a conference with the trustees of the road. That road is managed by Mr. Bartholomew mainly: he is the managing trustee, and a very competent man), — we were clearly satisfied in going there, that that piece of property was very valuable, — that part of the road between Hartford and Providence. When in Hartford, we were told by Mr. Bartholomew and Mr. Day — both said that if that piece of property could be purchased for two millions of money free and clear, if they could get a good title to that property, they would guarantee that they could raise the money in a very few days, and be happy to do it, to buy that piece of property, and would consider it a very valuable purchase, and worth a great deal more than that. I don't think there was

any doubt on the part of the Committee that that piece of property is worth a good deal more than the encumbrances upon it; so that upon that piece of property I suppose there is considerable margin on a valuation of two millions of dollars, which, I think, is a low valuation.

When you come to the other road: on the New-York and New-England Railroad, according to the Report, which I suppose you have, the amount of the net earnings of the road appear to have been \$184,383. These figures here are more satisfactory than any I could give you from memory. On the ninth and tenth pages is the statement of the Committee in regard to the value of the property, which, with one or two exceptions, does not differ much from the opinion which I have held as to its value.

On the bottom of the ninth page the Committee say, "In the Report of the New-York and New-England Railroad for the year ending Sept. 30, 1877, the net earnings appear to have been, excluding interest paid, \$184,383."

Then the net earnings of the other road, the Hartford, Providence, and Fishkill, for the year 1876, are stated to have been \$166,594. I set it at a hundred thousand dollars: that year it was considerable more. That is on the tenth page of the Report. I refer to the Committee's Report of last year, not to the Commissioners' Report. I am dealing with the Report of the Committee made at this session of the legislature.

Mr. GILBERT. You say the net earnings were a hundred and eighty-four thousand dollars. What became of that money? Was any portion of that money used to pay any debt incurred during last year?

Mr. STONE. A portion of the money was applied, in part, to the payment of rent, and for expenses incurred, I suppose, in repairs and improvements upon the road. That is the \$184,000.

Mr. BALDWIN. That was exclusive of rent. There is a mistake there in the figures. The rent was deducted there, although it was afterwards deducted again on the next page. That was deducted from the earnings, and left \$184,383 as the net earnings for the year.

Mr. GILBERT. What I want to know is, Was that hundred and eighty-four thousand dollars the net profit of last year, after paying the debts incurred last year of any nature whatever?

Mr. BALDWIN. It was, after paying rent, taxes, cost of steel rails, &c.

Mr. TUCKER. The rent seems to be stated at seventy thousand in one place; and here it is fifty-five thousand. What is the reason they differ?

Mr. BALDWIN. I did not know there was any other statement than the fifty-five thousand.

Mr. STONE. I believe that was owing to this; I think seventy thousand has been paid at some period; but the rate has been reduced. Isn't that so, Mr. Hart?

Mr. HART. Yes, sir, the rent has been reduced, and will be less next year, because we have made arrangements to have it considerable less.

Mr. STONE. What I wish to call the attention of the Committee to, is the value put upon this property by the majority of the Committee. They seem to admit that the net earnings of the road for the year 1877 were \$184,383; and the earnings of the other branch of the road were \$166,594; together making the earnings of both roads amount to \$350,977. And the payments they said would be as follows:—

Interest on 5,500,000 bonds pledged to State . . .	\$385,000
Rent of land at Boston, about	55,000

Supposing this arrangement was made as contemplated, the liability of the road would be as stated, except that the \$55,000 are already deducted. The \$55,000 rent of land was already deducted in computing the amount of the net earnings.

The Committee make the liabilities of the road, including interest upon the loan, and rent of land, \$440,000, as the total annual payments to be made by the railroad company. From that the Committee deduct \$350,997, which is the net income of the road after the rent has already been deducted; so that the \$55,000 should not have been added to the \$385,000, and the \$350,000 should have been taken from the \$385,000, which would leave a balance of \$35,000.

Then, in addition to that, there is an error here which I have observed: I don't know that I can point it out to the Committee at this time. There is another error in making up the debt of the road on page 9. I find that the majority of the Committee in computing that amount have estimated the debt of the road as including all their liabilities, and have credited nothing for property, which, to a large extent, was available for the payment of those debts. Of course, as you will perceive, gentlemen, if the road is to be charged with the floating debt of \$704,550, there should be credited the property which is available for the payment of those debts.

Mr. BIRD. Such as what?

Mr. BALDWIN. I can explain that because I have the items here in the margin of the Report. Three of the items are made up by bills payable for supplies. That is balanced by supplies on

hand \$54,000. Balances due connecting roads, \$23,000, is balanced by balances due from connecting roads \$25,000, which is \$2,000 more than is due.

Mr. STONE. Mr. Chairman, if you have with you the Second Annual Report to the Stockholders, for December, 1877, you will find by looking at that exactly how the \$704,550 is made up. If you will look at the Report of the general balance-sheet of the Committee, you will find that the \$704,550 was made up of a number of items, — first-mortgage seven-per-cent bonds, notes payable, bills payable for supplies, balances due connecting roads, cash receipts; making in all \$704,550. And, being made up of those items, of course the corresponding items on the other side of the account should be given as assets, as they are available for the payment of some of those items. Balances due connecting roads, for instance, twenty-three thousand dollars; on the other side there is balances due from connecting roads twenty-five thousand dollars, — more than enough to offset it. So in regard to bills payable for supplies.

So that account, that statement which was made by the Committee in respect to the value of the road as judged by the receipts and expenditures, needs to be corrected. And the corrections I think you will find, on a careful examination, will be in favor of the road.

Mr. BIRD. I should like to ask Mr. Baldwin what makes up that one hundred and eighty-four thousand dollars, if the balances due from other roads is not a part of it. If you put them in the available assets, you must take them out of the profits: you can't take them out twice.

Mr. BALDWIN. I understand the making up of those items is a mere matter of book-keeping: the account is made up, and balance struck, to show what the condition is at that time. If the balance due from connecting roads is more than the balance due connecting roads, we should be credited with the difference.

Mr. BIRD. How about balances due connecting roads?

Mr. CLARK. Balances due connecting roads are also charged.

Mr. BALDWIN. Those are not debts which we must have money to pay; and must not be deducted.

Mr. STONE. The rent of land in Boston was deducted twice by the Committee. The debt and liabilities of the road are given, including the rent, and then you deduct the income after the rent has been taken out.

Mr. BIRD. I don't like to interrupt you.

Mr. STONE. I want to be interrupted as to a matter of correction. I prefer to be corrected now, if you will tell me where

the error is in my statement. As I understand it, in obtaining that result there the rent is already taken out.

Mr. HART. The rent and taxes.

Mr. STONE. Am I not right?

Mr. BIRD. No: you are wrong. I will wait till my turn comes.

Mr. STONE. Mr. Bird seems to think I am mistaken about it. Possibly I am. He prefers to take his own time, and I, of course, will not quarrel with him about that.

Now, the scheme is substantially this: That the State should loan to the road a sum of money upon what they believe to be ample security, by which they will, in effect, indemnify themselves for the loss which they have made, and which they will hereafter make, by reason of the previous loan, and purchase of stock; which amounts to the difference of interest between what the State will have to pay and what will be paid the State by the road.

That is the proposition, Whether it is not possible to effect a loan with the Company upon terms which will give us such an advantage as compared with the terms upon which we can hire the money; whether the difference between the interest we pay and the interest they pay us will not enable us to fully indemnify us for the amount we have already expended, and protect us against the interest which we will have to pay hereafter. I believe that is possible; and I believe it is possible without any considerable risk to the State. Dealing with this question purely as a matter of business, with no desire to help this road, with no desire to develop the resources of the State, but simply as a question of business, as a question which should address itself to us as businessmen having an investment in this road of thirty-six hundred thousand dollars,—whether it is not possible to devise a scheme by which we can be protected from any loss. That seems to me the only question which is before the legislature at this time. I deal with it entirely as a question of business; and any considerations which may be urged in respect to the policy of the State as to developing its business, &c., I consider entirely incompetent, and foreign to this question in its present aspect. And, looking at it purely as a question of business, I hold that it is possible to protect the State from this loss.

Now, if this is done, if this loan is made, then this property is put upon a much better footing than it is to-day. It is perfectly safe to say, that, if the road can earn the interest on five millions, and has been earning that amount, it is morally certain, that, in the future, it will earn more than that interest, being better situated than it is, and better able to do a larger and more profitable business.

In respect to the extension to the Hudson River: we are not responsible for that. We stop upon the road that is established. We say, that in the event of their going to the Hudson River, or not going, we have good security for our loan; for, if they go to the Hudson River, it is morally certain that such extension cannot seriously prejudice the value of our security. It is the judgment of men in Hartford, and everybody that has watched this road, that its extension to the Hudson River will develop the business, and increase the present profits, very considerably. Mr. Bartholomew told us in Hartford, when we went there to confer with the trustees, that he had no question about the expediency of going to the Hudson River. And so with the other gentlemen on the Board of Trustees; they were both clearly of the opinion that it is desirable to go to the river. But that judgment must be taken with this qualification: they are Hartford men; and, of course, any extension of that road would undoubtedly promote the prosperity of that city; so that should be considered.

But, dismissing these considerations altogether, dealing with the question purely as a question of business between Hartford and Boston, I am clearly of opinion that this investment can be made without loss to the State; and consequently I was in favor of a different action from that adopted by the majority of the Committee.

Then there is another element in the case.

Mr. CHAIRMAN. Would you say further, that it could not only be made without loss to the State, but should be made in order to save the State from loss? Is that the proposition?

Mr. STONE. That is just what I mean to say. I mean to say, that, if four millions are put in there, that the terms of the loan should be such, that, if the terms were carried out, then incidentally the State is indemnified fully for all it has already put in. It is an incident to the loan, that if the loan is made, and the terms of the contract carried out, then the State will be indemnified for what it has already put in.

The CHAIRMAN. That is a strong motive for it.

Mr. STONE. That is the only motive, Mr. Chairman. Of course the State would not go into an undertaking of this kind, if it had no interest in it already. But it is a large creditor; it has a large debt: and the question is, How it can protect itself? I think that is just the question exactly. The conclusion which the Committee came to, and which I dissented from, is this: that it was desirable, on the whole, to allow this property to be sold; that the Governor and Council had better have authority to sell this property, and get two or three hundred thousand dollars, and charge it

off as a total loss. That is the conclusion reported, — that it should be sold out, and the thing charged off the books, and the loss accepted as matter of course, a thing that could not be helped.

Now, I don't believe in that. I cannot quite see how it is wise for the State to do that, even if we do not propose to make another loan. I do not see why it is wise in the State to sell its interest in this property. I don't see any reason why the State should sell its interest.

Mr. DUNHAM. I believe the Committee did not recommend the sale of the interest: they only recommend that the Governor and Council be authorized in their discretion to sell.

Mr. STONE. I say that is substantially the same thing. I understand precisely what they say; and I say it is equivalent to the same thing. The Committee recommend that the Governor and Council have authority to do it, which means that they had better do it. That is what it means, if it means any thing. Such a suggestion as that coming to the legislature is, in effect, a suggestion, that, so far as they are advised, it is wise to do it. I cannot quite see the wisdom of that.

But if we don't do it, then I have a little sympathy with this poor road. Because, if we don't do that, what is the predicament of this road? Here is the State that has a very considerable amount of money invested in it, — the principal stockholder, holding more than a majority of the stock. How can they deal with other parties, if the State will not blow hot or blow cold? That is the question. How can they go into any market, and deal with any brokers, if the State won't do any thing? Therefore I admit, that, if the State won't invest any money, they had better sell their property, if they consult the interests of the New-York and New-England Railroad Company. I have no doubt they would very much prefer we should sell it, because then they would be in a condition to go to other parties. They could then say, "The State has made up its mind to sell and dispose of its property, and we are in a condition to deal with you." But so long as the State would not do one thing or another, and they went to persons who had the means to contribute, they would say, "The State is the largest creditor, the largest stockholder. What will the State do? We don't propose to lift the road out of trouble, and give the State of Massachusetts the benefit of it indirectly. We don't propose to do that, unless we receive a considerable bonus for doing it." And therefore they decline to touch it until they know precisely what action the State will take.

Still, notwithstanding it may be for the interest of the New-York and New-England Railroad Company, that this property

should be sold by the State, I think it is not for the interest of Massachusetts to do it, because it seems to me the time has not come for Massachusetts to dismiss all this property from consideration to deal with it as a matter of no value whatever, and charge it off as a total loss ; because we can well hold on to it for the present, and let matters develop. It is possible that they may succeed, notwithstanding the embarrassments which may arise from our relations to the road, they may succeed in finding parties who will make a loan to them, if they receive a very considerable bonus for doing it, and put the State in a better condition than it is to-day. It is rather difficult to see how the State can be in any worse condition. That is the view I wish to present to the Committee. I don't know how the State can be in any worse condition ; and, if the State can be in no worse condition, is it fair for it to hold still ? I think that is hardly a fair thing for the State to do. I think the road has the right, a qualified right, to come here and say to the State, " You have such control of this property, that we cannot tell what we can do until you make up your mind what you will do. And, if you mean to help us, say so ; and, if you don't mean to help us, sell your property and get out of the way, and let us find somebody else who will help us." That is what operated more or less with the majority of the Committee. But looking at it as a member of the legislature, as a disinterested party, having no interest in the property one way or another, but only as a citizen of the State, I don't think it is wise for the State to sell its property at present.

The CHAIRMAN. The Committee state their motive in their report : " In order that the State may, as soon as practicable, be withdrawn from all connection with work so foreign to the legitimate purposes of government."

Mr. HAYNES. If Mr. Stone will allow me, I can, perhaps, correct him on that last section. That section was inserted there partly at the suggestion of Mr. Hart, president of the road, who thought, if the State should not consider it necessary or desirable to go on, that other parties might be found who would take the road.

Mr. STONE. I so understand that. I understand that the New-York and New-England Railroad Company would like to have us do just that ; they would like to have us sell out : there is no doubt of that fact. I thought I had said that to the Committee. But I said I did not think it was a wise thing for the State to do. I understand very well what they would like to have us do if we are not going to make any loan.

MR. DUNHAM. You mean to be understood that your advice is, that the legislature should authorize a loan of \$4,000,000 to the New-York and New-England Railroad Company?

MR. STONE. Upon the strength of the road as it is now established, provided that they can have a claim upon that road, which shall be a first mortgage for that amount; that is, the whole road should be pledged for that \$4,000,000.

MR. DUNHAM. That would not change the status of the stock that the State holds. The State would still hold its stock?

MR. STONE. The State would still hold its stock. The difference between the loan which we should make (which would be payable to us from the road) and the interest we should have to pay would indemnify us from what we have already put in.

MR. TUCKER. Do you propose to have the State buy four millions of the ten millions of bottom bonds, or simply take them as security? That is to say, when the loan was paid, when the twenty-five years were up, would you expect to receive from the corporation \$4,000,000 or \$5,000,000, or would you hold them as security?

MR. STONE. Hold them as security.

MR. TUCKER. What right should we have to apply the rate of interest on those bonds, seven per cent, to our loan made at five per cent?

MR. STONE. By virtue of the contract.

MR. TUCKER. In other words, you would loan the New-York and New-England Railroad Company \$4,000,000, and receive back \$385,000 a year in the shape of interest, which would be nine per cent interest?

MR. STONE. Certainly, that is the effect of it. We have the right to stipulate for any rate of interest we please. The difference between the rate of interest paid and received would indemnify us for what we have already put in. That is my plan.

MR. TUCKER. You would not expect any portion of the four millions to be paid until the end of the time for which the bonds run, — twenty or twenty-five years?

MR. STONE. No, sir.

MR. DUNHAM. You make no provision for back interest?

MR. STONE. We hold the stock: the stock is not sold. If this scheme works favorably, it gives value to the stock, more or less; makes it worth more than it is worth now. If this should work favorably, the stock which is now selling for ten, or thereabouts, might bring twenty or thirty, or perhaps forty. That would be in our control, and we should have the advantage of that.

Mr. GILBERT. You speak of making up the back interest in that way. The interest on this loan of \$3,600,000 has been running for several years. We have been paying \$180,000 a year, and have got back nothing. You would hope the increased value of the stock would enable you to cover that.

Mr. STONE. To cover that as well. Perhaps you have already looked into it, and understand generally what my plan is.

Mr. GILBERT. I understand your plan, sir. It does not differ practically from the suggestion made by the railroad, except their proposition is for the State to loan them six millions upon the completed road to the Hudson River. That takes two millions more from the State, and involves us in the uncertainty in regard to that part of the road, which may cost four or five hundred thousand dollars more than is estimated, and which may not be so productive as they estimate. This proposition deals with the road as already completed, and takes the actual receipts for the last three years as the basis of valuation.

Mr. STONE. The scheme which I propose is limited to the property now established, and to the value of the road as determined by the past three years.

Mr. TUCKER. If we were to receive no more interest than we pay, — take your figures on page 10 of House Document No. 2, — you have a total income of \$350,000, as I understand it, on the present road, that would pay five per cent on a six-million loan, and leave a surplus of \$50,000, as the road is now run. That is the income as stated, — the gross income of the Hartford, Providence, and Fishkill Railroad Company, and the present New-York and New-England Railroad. \$350,000 is the net income of the two roads; and, if the State should loan \$6,000,000 at five per cent, there would be enough in the present income to pay that, and a surplus of \$50,000?

Mr. STONE. Yes, sir: I understand it so.

On page 12 of the Report is this paragraph, which I will call attention to: —

“We have at every step been more and more impressed with the conviction that the true interests of the road lie in an early separation from all State interference and management, and in an abandonment of all hope of aid from the State. Whenever the road is managed solely by its individual owners, by a board of directors who shall make it their first duty to nurse and develop its local resources with an economy and sagacity which can come only from constant and sharp supervision by private stockholders, it will enter upon the path of prosperity, which State aid cannot give, and will inevitably impede.”

That is a very good doctrine; but I cannot quite see, and could not at the time, why it should have any bearing upon the question

we are now dealing with. We are not attempting to help any railroad; we are attempting to help ourselves. If we were attempting to help the New-York and New-England Railroad Company, if it was urged as a matter of policy that we should help them, it seems to me these remarks would be very pertinent and proper. But, as I stated, I have dismissed all that from my consideration. I do not propose to help this road. I simply say, Can we help ourselves? That is the whole of it. For the question is, How can we help ourselves? how can we protect the State from loss by any arrangement with this property. It is quite immaterial what the policy of the State should be in regard to railroads. It is only an incident whether it happens to agree with the wishers of the railroad company. I don't care any thing about their wishes. The question with me is simply, How can the State as a creditor protect itself from loss? It seems to me perfectly practicable, owing to this fact, that the State, by virtue of its splendid credit, can obtain money on more favorable terms than they can, and will get the benefit of the difference in interest. We would not go into this business, if we were not already in to a large extent; but, in the present posture of things, we should avail ourselves of that fact, and thereby indemnify ourselves from loss. That is my view of it.

Mr. GILBERT. The net earnings of last year: I suppose you base your argument on the present prosperity of the road. Last year you say the net earnings of the New-York and New-England Railroad for last year were \$184,000. Now, if that is actually so, that is one thing: if it is not really and actually so, that is another thing. What I wish to get at is this: Is that \$184,000 the actual net earnings of the road for the last year, or was a portion of that used in some way for debts that were incurred last year?

Mr. STONE. As I understand it. I will say that the matter was before our Committee two or three times; and it is not doubted that these accounts are made up in good faith, and represent fairly the actual result of the year's work. But the money, the \$184,000, was actually all used up, entirely expended, in one way or another, for the benefit of the road. But the legitimate result, the legitimate cost of operating the road; putting into it every thing you would put in, not intending to convey any false idea; not putting into property account what should go to expense, but putting into expense every thing that should properly be put there,—rent, taxes, every thing, in that is incident to the operation of the road,—and the result was, the net earnings were \$184,000. That money was all absorbed, as I understand it, in expenditures that it

was necessary to make. Making the distinction which all railroads do make, as you are aware, between what is properly termed expenses and what may properly be called property-account, that \$184,000 went into expenses relating to property rather than the actual expenses of operating the road.

MR. GILBERT. Of course we know that the construction-account of a railroad can easily be manipulated by putting into property-account what should have gone to expense, and make a good showing, or *vice versa*. Now the point I am getting at here is, Whether that \$184,000, which you say has all been used upon the road, — whether that should not have gone into expense-account rather than to construction-account?

MR. STONE. In regard to that, I understand it was a proper division. I understand perfectly well what you refer to. Mr. Goodspeed, the accountant of the Railroad Commissioners, and a very expert man in these matters, who, with his experience, knows how possible it is to make a wrong showing, he says he has no doubt the accounts were properly made up, and made up in good faith.

One thing I admit; and that is, that these receipts, these annual receipts, — the earnings of the road, — are undoubtedly needed: I have no doubt they are needed for these improvements from time to time, as expended last year; that is, in regard to this division. In regard to the Hartford, Providence, and Fishkill division: in regard to that portion, the testimony seems to me decisive on that point, that they have got their road in such first-rate condition, that they will not hereafter need the money which they have expended heretofore in putting their road in first-rate order; so that the net earnings of the road, as stated by Mr. Bartholomew, the principal trustee, will be available for the payment of dividends, interest, or whatever other use they may put it to, beyond any doubt.

The only element in the case (of course I am arguing this matter as a member of the legislature, and as a citizen: I am not here as the advocate of any man or any scheme), — the only element in the case that creates any doubt in my own mind is this: that the \$184,000 was all expended in improvements. Now, although the road is placed in a very much better condition than it was a few years ago, yet it is by no means, as yet, a first-class road; so that, although receiving year after year more than the expenses of operating the road, they have used, and probably for some time would have a use for, all their earnings. The earnings, which exceed the expenditures, can very well be applied by them to improving the road rather than to the payment of interest upon bonds,

or any thing else. That is a consideration which, of course, will weigh with you the same as it did with me.

MR. GILBERT. So you must use the net earnings of the road for some years to come to bring the road up to a proper condition?

MR. STONE. As I understand it, the road can be made better than it now is: but, as against that, the road is very much improved from what it was; is very much better than it was. With this change in the administration, with only one management, with the ability to organize the business, and establish some uniform system, which has not been had heretofore, I anticipate a considerable increase in income: it seems as if there must be.

MR. DUNHAM. Isn't the term "net earnings" a misnomer there? Earnings which they saved out of the receipts of the road, but which they found it necessary to expend from time to time, every dollar of it, in keeping the road in good order—how can that be called net earnings?

MR. STONE. I don't think that is so. I don't understand in any instance that they have put into some other place in the accounts what should have gone into expense; for instance, take a common case, supposing you were running a factory, and in any given year you had incurred an extraordinary expense, which does not go into the ordinary or current expenses of the year, which is not in any proper sense wear and tear, or repairs which should properly have gone into ordinary expenses, you would place that extraordinary expense in a separate account to convey a correct understanding of the result of the year's work. I admit that this money was properly expended, was wisely expended.

MR. GILBERT. Supposing the state should loan them \$5,000,000; according to your scheme, how is the road going to get the money to pay the interest, if the net earnings are to be used to keep the road in good order, as they have been the past year?

MR. STONE. My answer to that is, They have been improving the road all the time, and could so apply their earnings for some time to come, if they did not pay interest on their bonds. But, this mortgage being a first claim on the property, if the interest is not paid, you will have the right to take possession immediately; and the road as it has been run for the last three years, not improving it, keeping it where it now is, and not undertaking to make it any better, has fully paid the interest on \$5,000,000.

MR. DUNHAM. If the managers of the New-England Road are unable to run the road, or run it in such a way that they are obliged to expend all the net earnings in keeping the road in repair, how much better could the State run the road if they took

possession of it? You were saying, that, in case they did not pay the interest, the State could take possession of the road. If the road is not able to earn any thing now, under the good management of the New-York and New-England Railroad Company, how much better could the State do?

Mr. STONE. I say the State could do it: the State does it now. My proposition is based upon the actual result for the last three years. I say they are doing it now.

Mr. DUNHAM. You were saying, that in the event of a new loan being made, and they did not pay the interest, the State could take possession.

Mr. STONE. I was saying the State could take possession. The State could then sell out for five millions; but they would not sell for five millions. You could not find a man who would sell out for five millions. I don't consider five millions any sort of a price for that property.

Mr. DUNHAM. I am glad that you view our stock as worth something. I should like to believe that is all true.

Mr. STONE. I have no doubt it is worth five millions. You will observe that this assumes that we own another road: we have now got only half of it. The Hartford, Providence, and Fishkill bonds are selling at seven or eight per cent premium; and they are a lien on the road to the extent of \$2,000,000. Less than half of your road would sell for more than \$2,000,000.

Mr. DUNHAM. Do you really consider the stock valuable in its present condition?

Mr. STONE. It is worth something. But we now only own this part of the road, and have the right of redemption of the Hartford, Providence, and Fishkill. We all agree that that division of the road has considerable value in it to-day. I think you will be satisfied, when you come to inquire into it, that the Hartford, Providence, and Fishkill division would be a very desirable purchase at three millions of money, — a very desirable purchase.

Mr. DUNHAM. It is owned by the New-York and New-England Road, subject to a mortgage?

Mr. STONE. They have the right of redemption. This scheme supposes it is redeemed, and that the New-York and New-England Railroad Company has possession of that piece of property.

This part of the property is in a different predicament. It was urged that the earnings of this property were very much less than those of other roads similarly situated; and I can see no reason why the income of this property, if put upon a good footing, should not be considerably increased, and the business considerably increased. Although the road runs across the country, and

the tendency of trade, of course, is down the valleys and the rivers of Connecticut, towards the Sound, yet as a set-off to that is the fact that this road runs through a portion of the country where there is no probability of competition, where there will be a steady increase of business, where the business of the road is exclusively the property of the road, and probably always will be. If you will look at the map of Connecticut, you will see that the business of a section of the country is the entire property of this road practically, although not large compared with the roads running in the other direction; but, in doing that business, it is free from competition.

MR. DUNHAM. Are there, to your knowledge, any complications in the way, and dispute in regard to the right, of the New-York and New-England Railroad Company to redeem that mortgage on the Hartford, Providence, and Fishkill Road?

MR. STONE. That is a matter which I have not studied; but Mr. Baldwin, who is the counsel for that road, and who, of course, is familiar with all those questions, stated that that was a matter about which there was no doubt at all, no question about the right to redeem that road. That is your question as I understand it. There is no question about that. I asked Mr. Bartholomew, who is one of the trustees under that mortgage, about that; and he also said he did not suppose there was any question about the right of this road to redeem.

MR. GILBERT. You propose to loan the road \$5,000,000?

MR. STONE. \$4,000,000. I said I thought the property was good security for \$5,000,000.

MR. OSGOOD. If I understand your suggestion, it is this: You would recommend that the State make a loan of \$4,000,000 to this road, provided they can give a first mortgage on the line between Boston and Waterbury?

MR. STONE. Upon what is now finished. I may have said Hartford; but I meant as far as the road is finished.

MR. OSGOOD. The New-York and New-England, and the Hartford, Providence, and Fishkill, which is finished to Waterbury. That is the simple proposition?

MR. STONE. If they can give a first-class mortgage. They have authority to issue a mortgage for \$10,000,000; and I suppose it is practicable, if they consent, that we should have a first lien on the road for \$4,000,000.

There is another thing, gentlemen. I rather inferred, although I don't know, — I rather inferred, from some remarks reported in the paper the other day, that this proposition of mine is not satisfactory to the parties interested in the road. Of course, if they

don't want it, that is the end of it. If they will only be content with a loan of \$6,000,000, of course it is idle to talk about \$4,000,000. I am not willing to give them \$6,000,000, because I think \$6,000,000 involves an element of uncertainty which it is not wise to consider.

Mr. OSGOOD. But if the State can get a first mortgage upon that line from Boston to Waterbury, as it is now built, you advise the loaning of \$4,000,000, provided the \$10,000,000 can be got rid of. \$376,000 of the \$10,000,000 are now out I believe?

Mr. STONE. That they say they can control.

Mr. OSGOOD. The \$10,000,000 you would turn into \$4,000,000?

Mr. STONE. Not exactly. I suppose, to the extent of our loan, the bonds could be stamped, or the remainder of the issue could be stamped, so that every holder of them would know that they held them subject to the first mortgage to the State, subject to our claim. Although the mortgage is in effect a mortgage for \$10,000,000, I don't think there would be any legal difficulty in so negotiating the loan that the parties taking the remainder of that issue of \$10,000,000 would take it subject to our claim. That is a consideration that may weigh with the parties interested in the road. If our loan is to be preferred, the rest of the issue of \$10,000,000 will not sell so favorably as they desire.

Mr. OSGOOD. The rest of the issue would be, in effect, a second mortgage.

Mr. STONE. On that portion of the road. I want to call attention to another matter in this proposition, which may escape your notice. My suggestion is, that our mortgage should be a first mortgage upon the road now finished to Waterbury. If they extend their road to the Hudson River, then, on that part of the road, the remainder of the issue of the \$10,000,000 would be a first lien.

Mr. GILBERT. Will it not also cover the road between Boston and Waterbury?

Mr. STONE. The State's mortgage will be upon both divisions, but will not extend to Fishkill.

Mr. DUNHAM. It will include the Hartford, Providence, and Fishkill?

Mr. STONE. As far as Waterbury. If they conclude to build from Waterbury to the Hudson, then the mortgage on that extension would be a first mortgage; and the road would have the benefit of that to make the extension.

Mr. CHAPIN. Would you prefer to have a second mortgage upon the new portion now unfinished rather than have one mortgage extend to the Hudson River from Boston? If the State

should loan the road six millions, wouldn't you rather have a first mortgage on the whole road than loan four millions, and have a first mortgage only to Waterbury?

MR. STONE. My suggestion is to loan four millions, and to loan only four millions.

MR. CHAPIN. You are not in favor of completion?

MR. STONE. I am not in favor of the State engaging in the completion.

MR. CHAPIN. You are not in favor of the completion of the New-York and New-England Railroad, and loaning them six millions? As the result of your investigation, you do not favor that proposition?

MR. STONE. You will find that so appears in our Report.

MR. BALDWIN. Will the Committee permit us to set ourselves right in respect to Mr. Stone's suggestion about the four-million loan? It is true, that, as that was discussed by the Committee, it would probably not be satisfactory to the railroad company. It is simply the question of the interest they should pay for \$4,000,000. The suggestion was, that, for the \$4,000,000, we should pay the interest on \$5,500,000: that would be pretty nearly ten per cent interest. We should be very glad to borrow four millions of the Commonwealth, and pay them the same rate of bonus as if we borrowed six millions; that is, pay one hundred and twenty thousand instead of one hundred and eighty thousand.

With respect to making it a first lien upon the property, probably the simplest way, if satisfactory to the directors, and satisfactory to the legislature, would be to deposit all the rest of the six million of bonds with the trustee, not to be issued. Then you would have a first mortgage; and, if the company want to build the road to the Hudson River, then we must make a second mortgage. But that is a mere suggestion that has occurred to me as Mr. Stone has been talking.

MR. CHAPIN. Mr. Stone, are you under the impression that it would not be better to put in two millions more, and make that road a first-class road to the Hudson River? Do you think it impracticable for the State to engage in that in order to improve the balance of that property, and make the whole line a first-class line, instead of making it a line which is unable to do the business which should come over the road?

MR. STONE. I am not prepared to say that I should not favor that rather than do nothing. But I am opposed to that scheme, because I think this is a better scheme. I should much prefer to put in four millions than to put in six. My idea is, that, if we put in four millions, somebody else would finish the road to the

Hudson River. That is my expectation, that, if the State puts in four millions, they will go to the Hudson River without our help. I much prefer they should go there without our help than to put any further money in.

REMARKS OF F. M. STONE OF WALTHAM.

The CHAIRMAN. The Committee would be pleased to hear from some one of the majority of the Committee.

Mr. F. M. STONE, Chairman of the Committee of 1877. Mr. Chairman, I don't know that I have any thing to say about this matter. I am perfectly willing to answer any questions that the members of the Committee may desire to put to me. It is a subject that has not engaged my attention since the Committee closed its hearings, and I shall not be so fresh in my recollection in many things as my friend Col. Stone is.

I have no desire to volunteer any thing.

The CHAIRMAN. What do you think of the proposition submitted by Mr. Stone, of the loaning of four millions, secured by a first mortgage on all the road terminating at Waterbury? I mean what do you think of it as safe for the State to do, and also as affording an opportunity for the State to secure itself from any loss on its present investment as it now stands?

Mr. STONE of Waltham. I never understood, Mr. Chairman, and did not understand while the Committee were discussing that question, that that was acceptable to the corporation. It was a proposition we discussed, being suggested by one of our members, a member of our Committee. And it seems to me that the first question for your Committee to pass upon is, whether or not the corporation wants any loan from the State of \$4,000,000, and, if so, upon what terms. If I knew that, then I should have an opinion upon it.

The CHAIRMAN. Isn't it proper for the Committee to consider it, because we are considering the interests of the State, and not the interests of the road?

Mr. STONE. I should think not, because this requires the agreement of two parties, — the corporation and the State. If you know in advance that the corporation would not accept it, what is the use of considering it?

The CHAIRMAN. Your understanding was, that they refused it?

Mr. STONE. I don't understand they propose it, or say it would be acceptable.

Mr. OSGOOD. The question is this: What proposition shall the State make, if any, in regard to their investment in the securities of this road?

Mr. STONE of Newburyport. Not what the corporation will accept.

Mr. STONE of Waltham. I don't understand it is the part of the State, in the present condition of affairs, to volunteer a loan to this railroad company, or to any other railroad company.

The CHAIRMAN. If the State is considering how it may save itself from loss, isn't it proper to consider any means by which it may secure that result?

Mr. STONE. I understand this. The question put to me is as to the expediency of making a loan of four millions to this corporation.

The CHAIRMAN. The expediency with reference to securing the State from loss upon its present investment in the road.

Mr. STONE. I understand all that. But do you know whether or not the corporation will accept the loan?

The CHAIRMAN. In regard to that, if we are looking about to save the State from loss, isn't it proper for the State to propose that to the road, and see if they will accept it?

Mr. BALDWIN. To save embarrassment, I will say that the road will be very glad to borrow \$4,000,000 upon such terms as may be agreed upon.

Mr. STONE. But not upon the terms proposed by Col. Stone?

Mr. BALDWIN. The question was, whether it would be safe for the State to loan the Corporation \$4,000,000 upon such terms as may be agreed upon; whether the security is good for \$4,000,000.

The CHAIRMAN. Mr. Stone, I will call your attention to the question of the Committee. If it could be made apparent that the State could secure itself by the acceptance of such a proposition, wouldn't it then be a proper thing for the Committee to consider whether they would make such a proposition, and see if the road will accept it?

Mr. STONE. I have an impression, Mr. Chairman. Of course the Committee understand that I am not a railroad expert, nor professing to be intimately acquainted with railroad affairs; but, from the examination we had last summer and last fall, I have an impression that the road would be security for \$4,000,000.

The CHAIRMAN. And also that it would secure that result, that it would stop the State's loss on its present investment?

Mr. STONE. That I have my doubts about. I had supposed that \$4,000,000 would not be adequate to accomplish what my friend the colonel proposes here. It will take about that sum to wipe out the existing indebtedness.

Mr. BALDWIN. That is all that is wanted. Six millions contemplates the completion of the road; four millions, the redeeming it from its present debt.

Mr. STONE. They would then be without terminal facilities in Boston, and there must be large expenditures to procure those, which would not be met by any loan of \$4,000,000.

Mr. BALDWIN. We are paying rent for that now.

Mr. STONE. I understand that. I understand the proposition to be a loan of \$4,000,000, which would only relieve the road from existing embarrassments, and they would then have no terminal facilities in Boston, which they need as much as they need any thing on the road. This \$4,000,000 would not procure those.

Then I suppose the State would not loan \$4,000,000 to this corporation, or any other corporation, without doing what it always has done,—require the party to establish a sinking-fund, would they? It would take quite a considerable amount to establish a sinking-fund that would redeem the sum that would be due in 1900. When you have taken that out, I venture to say that the corporation would not have enough left out of four millions to place them in the condition they ought to be in; and then they would be without terminal facilities. Four millions is going too far, or it is not going far enough. Do one of two things,—loan them enough to wipe out the existing indebtedness on the Hartford, Providence, and Fishkill Road, which they claim is the thing which is the greatest thorn in their sides, or else loan them \$6,000,000, and complete the whole thing through to the Hudson River.

I think the Committee were unanimous on the proposition we received from the railroad company, which was really the only proposition there was before us; that is, the loan of the \$6,000,000, to go through to the Hudson River. I think we were unanimous upon that.

Doesn't that dispose of this question? It seems to me so.

Mr. OSGOOD. What is your judgment as to whether this road, in its present condition, without being completed, can earn enough to pay the interest upon a loan of \$4,000,000, without terminal facilities, and without through connections by way of Fishkill?

Mr. STONE. I think we have stated that in the Report. I think it is fair to assume that the Committee found unanimously that the earnings of this road would substantially cover that sum, probably.

Mr. OSGOOD. So that a four-million loan, in your judgment, would be secure?

Mr. STONE. If the correction is to be made as suggested here, as to the item of rent. This figures up a deficiency of \$89,000. Making the correction, and taking the operation of last year, it would leave a deficiency of thirty or forty thousand.

Mr. OSGOOD. If you think the road will earn enough to pay the interest on \$4,000,000, the State, according to Mr. Stone's idea, would gain the difference in interest between what the State would have to pay on the four millions of scrip and what the road would pay as interest on four millions of bonds. That would be an advantage to the State under Mr. Stone's scheme.

Mr. STONE. I don't think I quite fully get your question. But, to answer your question as I understand it, if you will take page 10 of the Report you will find the opinion of the majority of the Committee:—

“While, therefore, it would seem that the interest on the \$4,000,000 would be reasonably secure, we find no grounds for confidence that the interest on the old debt could be paid out of earnings for many years to come.”

No ground for confidence.

Mr. OSGOOD. But if the interest could be paid upon \$4,000,000, then the State would gain the difference between the interest it would pay on the \$4,000,000 and what the road paid it.

Mr. STONE. Not if all they pay is what the State pays simply. We have not gained any thing by that operation.

Mr. OSGOOD. Suppose the State should get its loan at four per cent, and the railroad should pay the State seven per cent on \$4,000,000. Suppose the State should get their \$4,000,000 at four per cent by issuing their scrip, and the railroad pay the State seven per cent, the State gains the difference between four per cent and seven per cent.

Mr. STONE. Of course they would. The proposition was, that they should pledge 5,500,000 bonds, on which they should pay seven per cent. Mr. Osgood proposes that the State should loan them four millions which the state could borrow at four per cent, and lend to them at seven per cent.

Mr. OSGOOD. They pay seven per cent on four millions, and we pay but four per cent.

Mr. STONE. This is precisely the colonel's proposition. You loan them four millions, and they pledge with the State 5,500,000 of seven-per-cent bonds. They pay the difference between seven per cent and whatever the State has to pay for its money.

Mr. OSGOOD. The State would certainly gain the difference in interest.

Mr. STONE. The difference between whatever they paid us, and whatever we paid.

Col. STONE of Newburyport. My suggestion was, that the collateral should be large enough to make the difference between the two cover the entire loss to the State from its old investment.

Your suggestion is to pay four millions, or loan four millions *pro tanto*.

Mr. OSGOOD. Yours makes the rate of interest larger, because the collateral is larger.

Col. STONE. In effect it makes it larger than as you suggest it would be *pro tanto*.

Mr. OSGOOD. The State would gain as much as that. If the road is perfectly able to pay the interest on \$4,000,000, the State would certainly gain, if it made the loan, the difference in interest.

Mr. STONE. Certainly we should.

Mr. DUNHAM. That is all assuming that this road would pay the interest.

Mr. OSGOOD. They all agree they could do that.

Mr. STONE. We all agree about that.

Mr. OSGOOD. That four millions would be a reasonably safe loan?

Mr. STONE. Yes, sir, we say so — all of us. There is no question about that in my mind.

Mr. OSGOOD. At seven per cent?

Mr. STONE. Do I understand your question, Whether it would be safe to loan at seven per cent?

Mr. —. As safe at one price as at another, isn't it?

Mr. STONE. Yes, sir, probably. I think there is value in the property there of more than \$4,000,000. My point, Mr. Chairman, as you will see, is, I dismissed — I don't know as I am here as advocating. I don't understand exactly how this matter is before your Committee, — whether this Committee is on trial, whether the road is trial, or whether it is a trial all around. It seems to be a queer position for us as members of the Committee to be in; but I desire to give all the information I can.

My own view is this: We dismissed from our mind the proposition to make a loan of \$6,000,000, no one of our Committee being in favor of it. Then upon a suggestion being made by a member of our Committee, that a loan of \$4,000,000 might result in an advantage to the State and the road, that we considered; and upon that, as I said before, my idea is, that \$4,000,000 would not place the road, in the condition which it ought to be placed in, if any thing is to be done. It don't provide terminal facilities. They must have the loan, less the amount required to establish a sinking-fund, and, after that is taken out, they have not got enough to wipe out all the underlying indebtedness. Therefore there is no use in making such a loan as that. They must have enough to do that, if the road is going forward.

Mr. TUCKER. Do you think, taking page 18, that the road

will be able to pay the amount of interest specified, — \$385,000 a year?

MR. STONE. Judging from what they have done, I don't see why they might not.

MR. TUCKER. You think they would be able to pay in interest \$385,000 a year?

MR. STONE. Judging from what they have done.

MR. TUCKER. That would be the interest at seven per cent on \$5,500,000 in bonds. And if the State loaned them \$4,00,000, which it raised at five per cent, it would make just that difference of \$180,000 a year, — what the State is paying for interest now.

MR. STONE. \$350,000 is put down there as the income.

MR. TUCKER. The question with you, is, whether the road would make up that difference.

MR. STONE. I can't say about that: it is problematical. As the colonel said, we were left somewhat in the dark as to what expenditures would be required upon this road in years to come. The testimony was various, not to say conflicting. A good many things were pointed out to us that good policy and good management required to be done, and which required a large expenditure of money to be made, year after year, for a considerable length of time, — a good length of time. A large amount of work required to be done at South Boston, and over the road, in changing the condition of things, — their road-bed, extending double-track, and adding a variety of other things at almost every point on the line of the road. At the same, time we were fully assured, I think, that the condition of the road had been most decidedly improved since the present managers had been in the management of the road: it had been brought up very much. But how great an expenditure will have to be made in the future to bring that road up is entirely problematical.

MR. TUCKER. You understand, Mr. Stone, that, if these \$4,000-000 were to be issued, they would pay up the present indebtedness of that road, floating debt and all?

MR. STONE. That is a matter susceptible of proof: I believe it to be so. You will find on page 9 a statement of the indebtedness, — \$4,016,690: that is the indebtedness of both roads. The colonel suggests that there are some small items to come out of that, which are included in the floating debt; but, after all, it does not materially change the condition: it is about \$4,000,000. That is what the managers of the road have always stated: we don't find it to vary.

I want to say, on the other hand, that we have received from the managers of the road every assistance in their power; and,

giving a personal expression of my feelings about the matter, I think they certainly show a disposition to aid us in every respect within their power, without manifesting the slightest inclination to keep back any thing on the subjects of which we inquired.

Mr. OSGOOD. I understand you were saying you did not know what was before the Committee. I understand the question before this Committee is the same question that was before your Committee: "What action it may be expedient for the State to take in relation to its investment in the stock and securities of the New-York and New-England Railroad."

This Committee called upon the members of your Committee to come in as gentlemen that had made a thorough examination into the subject, and were competent and able to advise this Committee in regard to exactly that point, — what the State ought to do. Now, as I understand, your conclusion is, the State had better sell its stock, or at least authorize the Governor and Council to sell it, and collect the note of \$250,000 held by the State, in order that the State may, as soon as practicable, withdraw from the management of railroads.

Mr. STONE. I see no substantial — I am stating my ideas about it; I am not undertaking to speak for other — I see no reason why that loan of \$250,000 should not be paid. On the other hand, I see nothing that can be done that will justify me, as a member of that Committee, in recommending the State to put \$6,000,000 in there, or to put \$4,000,000 in there, with the idea of enhancing the value of the stocks. That is the conclusion I came to. I think the State ought not to do it.

Mr. OSGOOD. What do you say about selling the stock?

Mr. STONE. I don't understand, as has been claimed here, that the passage of a resolution of that sort by the legislature, placing it in the hands of the Governor and Council, is tantamount to a direction, on the part of the legislature, for them to hurry out and sell that stock, or throw it away. I expect they will act with that prudence and judgment that the circumstances of the case call for: undoubtedly they will. They won't do any thing of the sort. My idea was that it should be placed somewhere, so that the interests of the State could be disposed of in case the interests of the road required that the owners of the property should be changed, having dismissed all idea that the State will realize a return of what it has invested. That was the idea in my mind upon that point.

Another thing that influenced me to a very considerable extent in this matter was the peculiar facts that are connected with this corporation. It is made up of stockholders, as you know, repret

senting \$20,000,000 in value, the larger part of which is not held in Massachusetts, but is held in New York, I suppose, — the majority of it. All the parties holding that right — that is, the Berdell bondholders — have the power, at any time, to come in and assume the management of this road, the entire management of this road, at any time: at any meeting they may come in and oust the gentlemen who are now running the road; and, however great our confidence may be in their management, — and I have confidence in it, — there is not a particle of certainty that — there cannot be a particle of certainty that they will remain six months longer in that position. It may pass into the hands of parties who are inimical to the interests that we would like to subserve.

MR. TUCKER. The Eastern Railroad is so situated now, that two-thirds of the directors are chosen by the bondholders.

MR. STONE. I don't remember what the proportion is.

MR. TUCKER. Six out of nine. If a similar provision was made here —

MR. STONE. You can't have that provision in this case.

MR. TUCKER. Supposing it could be?

MR. STONE. This is fixed in the Berdell mortgage. It is entirely beyond our control, as every matter of legislation is on this subject. It is a subject of legislation in four different States. This property lies in Massachusetts, Rhode Island, Connecticut, and New York. No change can be made in the conditions that exist, without the agreement of all those States.

MR. STONE of Newburyport. One answer to your proposition is, that, if this mortgage of four millions were made a first mortgage, the trustees are in Boston — you are in it, the Safety Deposit Company. And, further than that, if this is consummated, the mortgage is a first lien upon the road, and you don't care who the directors are, provided the interest is paid. If your interest is not paid, then it is within your control.

MR. STONE of Waltham. That is in answer to my proposition. I said the management of this road might be in the hands of parties over whom we had no control. It is true that our mortgage might give us possession of the road entirely irrespective of the management. That, of course, is perfectly true. If they did not pay the interest, of course we would be forced to take possession.

There is only one thing more I want to suggest; and that is, the feeling I have had, and it comes up re-invigorated by the experience of every year. That is this idea, that the State should go into the development of these interests by loaning its capital or its credit, or in any way become entangled with the railroad interests of the State, is false political economy, and the sooner we drop it the better. It

has been a mistake from the beginning. I have had the pleasure of voting against it whenever I have been in the legislature, and the subject has come up of allowing towns to invest in railroads. I don't believe in it at all.

Mr. —. Are we not in the position of the soldier, who was in prison, contrary to law? We are there, and can't help ourselves. We have got three millions in there; and the question is, whether we can get any of it out.

Mr. STONE. Upon that point my mind is made up: I don't think we will. I can't be carried away with the idea, that, by putting in four or six millions more, we shall get it back. I don't believe it. I don't think it is a wise thing to do. I think the best thing that can happen for this corporation, for the interests of those who are the owners there, is for the State to dissolve its connection with it, and let it pass into the hands of those who are personally interested in the management, and will look after it as private property is always looked after.

Mr. BIRD. As a lawyer, do you think this proposition to give a first lien on the road for the security of \$4,000,000 can be made effectual without the consent of the legislatures and the courts of this State and the other States?

Mr. STONE. Well, I have been inclined to think, in answer to that, that that matter could be so arranged. I think it might be.

Mr. BIRD. With the consent of the bondholders.

Mr. STONE. That is one way of doing it. That is not a matter I have very carefully considered; but I am inclined to that opinion.

Mr. TUCKER. I should like to ask a question of some gentleman connected with the road. I notice on page 5 of House Document 325, it speaks of some liabilities which are disputed, and do not appear on the books of the present corporation.

Mr. BALDWIN. Those are these various mortgages, of different issues.

Mr. TUCKER. Which are put on page 9. Those are all included in the four millions?

Mr. BALDWIN. Yes, sir. We did not include those as a debt: they are simply a lien on a part of the road. We don't propose to dispute them actually. A large proportion of them were made at the time when it was supposed that a mortgage could be made in this Commonwealth without legislative authority. That was decided in the Commonwealth against Smith, that it could not be done. Some of these were made prior to that decision, and were not so authorized; but they were authorized in Connecticut, and cover little parts of the road, so that we would consider it very inequitable not to pay them.

Mr. TUCKER. I thought those were included ; but I wanted to be sure. There is not eight hundred thousand besides the four millions.

Mr. HART. On page 16 of the Railroad Commissioners' Report of last year, you will see the items that make up this \$800,000 in the Report of last summer's committee. It is the balance outstanding of these different mortgages.

The CHAIRMAN. We will continue hearing the remarks by members of the Committee. I will invite Mr. Haynes, who was on the Committee last year to address this Committee.

REMARKS OF TILLY HAYNES.

Mr. HAYNES. Mr. Chairman, I don't know that I can say any thing that has not been already said, and better said, by Mr. Stone, our Chairman.

In looking over this matter, we endeavored to do so, as far as I was concerned, in a business-way. We found that this railroad, according to the Report of the Railroad Commissioners, was earning the interest on a valuation of about \$11,000 per mile ; was earning a fair income, at the outside, on about \$11,000 per mile. We found, on examination, that probably we were getting to the full extent all the business from that property ; that it could not be materially changed or materially increased. We found, that, in order to go through to Fishkill under the original proposition of \$6,000,000, that \$6,000,000 would be required to build the road to Fishkill or Poughkeepsie. Poughkeepsie was the final point, because the bridge is to be built there : that, perhaps would be the point that was rather suggested, although no point was fixed upon. They might go to Fishkill or Poughkeepsie, or farther down towards New-York City. At Poughkeepsie they were building a bridge ; and that, perhaps, would be the point. But, when you get to Poughkeepsie, there is a road running from Hartford to Poughkeepsie, without the aid which you are asked to give, and which to-day is not worth probably a dollar.

M. ———. What road is that?

Mr. HAYNES. The Western Connecticut Road. It has gone from the stockholders to the second bondholders ; and I don't know what the value of the present bonds is. So, to get through this extension, \$6,000,000 is called for ; and to build a road to Poughkeepsie is simply to have two roads where one cannot live now.

In going over that road from Waterbury to Fishkill, we found that every village we came to where there was water-power, or facilities for manufacture, already had either water or railroad con-

nection direct with the Sound or New York ; and, so far as additional facilities went, they were better off to-day than they could be with this proposed road ; and, so far as any additional business goes, I don't think there is a possibility of a dollar ever coming from it. I feel strongly about that, because I have taken some pains to examine it. The present road cannot pay its running expenses. That is a pretty good argument that there isn't any business to be got.

The next fact brought to my mind was, that this might be a great coal-distributing road ; and I took some pains to hunt that up, and found coal delivered at New York, Bridgeport, Norwalk, and New Haven, at the same price ; delivered at any of those points without any additional charge over delivery in New York. That seemed to be rather a faint hope for business. I looked to see if the connection with the New-York and Erie Road would give them any business, and found that the business of that road goes to Jersey City ; and from there the outside Metropolitan Steamship Company to Boston was doing business lower, probably, than any railroad would care to do it. It didn't seem to my mind that there is a possible chance for any additional business to pay for the expense of building through to Poughkeepsie or Fishkill.

Coming down to the point of valuation of the property : the Railroad Commissioners, in their Report of last year, state, as I say, that it is about \$11,000 a mile ; and the underlying indebtedness is over \$14,000 a mile. It don't seem to me possible that there is any great margin for income. The total indebtedness, throwing out the Berdell bonds, throwing out all the present stock, — with twenty million of stock and bonds wiped out, the indebtedness to-day is \$14,000 a mile. I could not see any margin for the State to make any loan upon the property.

The \$4,000,000 asked for is rather a complicated proposition. It was made by one of the Committee, and seemed to me very complicated. I did not see where help was to come from that. It really puts the corporation in no better condition than it is in to-day : it simply unloads the whole indebtedness on to the State. I could not see any benefit to be gained by the State, or any particular benefit to be gained by the corporation.

In relation to the matter which one of the Committee suggested here, I think, perhaps, I may have suggested the last phrase in the Report. It was done wholly with the idea of assisting the management of this road. They have great confidence in the ability of the road to extricate itself, and become a valuable road : they certainly have bond-holders enough who are able to buy the road, and own it. If they have got confidence enough in the

ability of the road to become valuable, it seems to me they should put it in such condition that they could purchase it, and re-organize the road, and make it valuable, if they have confidence and believe in it.

This last paragraph, I say, was put in with the idea, — not with the idea of forcing the stock on the market, but simply to allow any syndicate that might be formed, any new organization that might be made, to have this property pass into their hands. I don't think there was a man on the Committee that discussed this, I don't think there was an individual on the Committee, but what felt, that if these new ten-million bonds should be taken, or if six millions should be taken, the entire stock and bonds at present existing would be wiped out. I can't see any other lookout, any other possible contingency, that the ten millions now authorized, if disposed of by the State taking them, or by selling them at eighty or sixty, so much the worse: I can't see but they are going to own the property, and the present stock and bond holders will be entirely wiped out.

I don't know any thing particular to say, more than these facts which guided me in my vote on the matter. If there is any thing that the gentlemen desire to ask, I will endeavor to answer them.

Mr. —. Did the proposition of four millions originate with the managers of the road?

Mr. HAYNES. No, sir: one gentleman of the Committee suggested that as possibly being an opportunity to assist them.

Mr. —. I noticed the managers put six millions forward, and the Committee discussed four millions.

Mr. HAYNES. I don't think that came from any gentleman of the company, not from any officer of the company.

It is rather a complicated road. There was some suggestion that some economy might be made by putting the two roads together. Two of our Committee went over to Hartford, and found the Hartford, Providence, and Fishkill Road a very well-managed road. I think, after paying their expenses, which are very small (while about the present length of the New-York and New-England, the expenses of management I think are about one-third of what the New-York and New-England management is), — it is well managed, and with economy; and in nine years they have managed to pay off about \$52,000 of indebtedness: so the margin there don't seem to be very large.

Mr. —. You think the present stockholders and bondholders would be wiped out, if the road is able to place its new mortgage?

Mr. HAYNES. Yes, sir.

Mr. —. How do I understand the present mortgages would be wiped out when they put on another mortgage?

Mr. HAYNES. I don't mean the original bonds, the old bonds before the Berdell bonds, I mean the Berdell mortgage-bonds, by the ten millions of new bonds.

Mr. —. Where do you get those figures? Can you tell, so we can find the same figures you have given us, — \$14,000 a mile, and \$11,000 a mile?

Mr. HAYNES. Look at the Railroad Commissioners' Report, page 6, House Document, 325, you will find there they fix the valuation at about \$10,000 or \$11,000 a mile.

Mr. —. If that is so, then the road cannot pay a fair interest on the debt.

Mr. HAYNES. I don't think it pays interest on the entire debt. I think there are some bonds they are not paying interest on.

Mr. BALDWIN. No bonds that the corporation owe. The two roads are now paying interest on \$3,000,000, as near as can be estimated.

Mr. HAYNES. That takes up about all the income there is. When you come to pay interest on \$4,000,000, I don't see where the margin for improvements on the road is.

I don't know as there is any thing else I have to suggest.

REMARKS OF LEVI C. WADE.

The CHAIRMAN. The Committee will listen to Mr. Wade.

Mr. WADE. Mr. Chairman and gentlemen, I don't know exactly the purpose of the Committee in calling us before them to-day; but, if there is any information I can give them, I shall be very happy to do so.

The CHAIRMAN. The subject before the Committee is the Report of the Committee. We find you subscribe to what is on the last page of the Report. We should like to get your views more fully.

Mr. WADE. Whether you wish to get information as to facts, or have me express my views on the general subject from what acquaintance I have of the facts?

The CHAIRMAN. Your views, your judgment, as to what should be done in answer to this question: "What action it is expedient for the State to take in relation to its investment in the stock and securities of the New-York and New-England Railroad Company."

Your judgment formed from your investigation.

Mr. WADE. I shall have to make a very brief statement, and on the question generally.

In my judgment, the legislature would make a very grave mistake if they should adopt any such legislation as has been recommended by the majority of the Committee of last year. As I understand the majority of that Committee, they recommend substantially that the stock held by the State shall be sold by the Governor at his discretion. As soon as any such action as that is taken, of course we all know what the effect will be, — the market-value of that stock will fall so low, that the State will realize little or nothing from the sale of the stock. If we go no further than simply sit still and hold on to the stock, I should say it was much better than it would be to adopt the recommendation of the majority. It is a good deal like a man offering me a dollar for the security I hold for a \$1,000. Perhaps it may not be worth more than a dollar; but I prefer to hold on to the security, if I lose the dollar, and take the chance of its being worth more in the future. If you didn't propose to go any further, I should say right off that it was extremely poor policy for the State to throw its stock on the market at the low price it would get. I do think the State might do something more practical than to sit still, and let things remain *in statu quo*, so far as the State is concerned.

I am not in favor of the State loaning this corporation sufficient money to pay off the underlying indebtedness, and get the control of the road in the New-York and New-England Railroad Company, unless there can be certain concessions made that will guarantee the State against loss.

The concessions that I allude to, and, to my mind, indispensable to our security in undertaking any such enterprise, are these: —

That there should be such legislation as would give the State the right to elect a majority of the directors of that corporation, or any subsequent corporation that might be formed, until the last dollar that had been loaned by the State had been repaid; and that these directors must be elected, not by the legislature, as the State Directors of the Boston and Albany Railroad are elected, — which always seemed to me about as poor a way of electing such officers as could be devised, — but nominated by the Governor, and either confirmed by the Council or the Senate: the latter I should think was preferable; at any rate nominated by the Governor, and confirmed by some other body. Have the direct responsibility in some third person, who would no doubt select men of railroad experience, of character and integrity, sufficient to fill such a position. I do not mean to cast any reflections on the gentlemen who fill such positions on the Boston and Albany Road; merely to comment on the manner of selecting men for such positions.

If any such loan is made, the Commonwealth should have the right of naming the majority of the directors, and name them in such a manner as to insure that the management would remain in competent hands. Then I think it might be well for us to unite on a proposition somewhat similar to the proposition recommended by Col. E. F. Stone, which I suppose he has fully explained to you, the proposition which I think was the second one mentioned in this Report. I agreed substantially with that proposition, provided we should first have these guaranties.

I was told by a gentlemen familiar with this subject, that it was substantially impossible for us to obtain any such guaranty. If that is the case, I am certainly opposed to the State assuming the risk and burden of lifting this enterprise out of its present difficulties.

It appeared to me, from the best information I can get in regard to this road and its properties, — not simply the line from Boston to Willimantic, but the entire line, including the Hartford, Providence, and Fishkill, — it seemed to me that there was real value there; that there was an opportunity to lift that enterprise into a position where some return might be had from it, — some substantial return. I think it is a desirable thing that all the underlying liens should be consolidated in one permanent debt, and that the whole enterprise should be put under one responsible management.

Now, I think this is a purely business proposition. The Commonwealth is interested to a large extent, owns more than one-sixth of the entire stock, even when the Berdell bonds shall all have been converted into stock. There are other parties interested to a large extent; and it seems to me under those circumstances the sensible thing for the parties who are the most largely interested to form a combination, and take all the securities there are, take all the bonds under this new ten-million mortgage, — the bonds of which have been prepared, and some of them issued, — take them all as security, and advance what money is necessary to pay off all the underlying liens and floating indebtedness, get control of the road, put it in good condition to run, and then run it. If such action is taken by those parties as I have indicated, every dollar that was put in would go into the road, or into the present indebtedness of the road, because it would be controlled and expended by the very parties who were putting it in. I can see that there is an opportunity in that enterprise to make money.

Mr. ——. Who are the parties who are interested?

Mr. WADE. Other than the Commonwealth?

Mr. ——. As you used the expression, who do you mean?

Mr. WADE. I don't know that I could name them all now. I

mean those who own the stock of the present New-York and New-England Railroad Company, or Berdell bonds, which I speak of as stock; for they are simply of value for the purpose of transferring into stock, — the twenty-million Berdell bonds. Those are the parties that I refer to.

In my judgment a syndicate could be formed of fifteen or twenty persons, including the State, who might contribute in the same degree or proportion as their respective interests: of course they would have to contribute more than their actual interest, as a great many holders of small lots of stock and bonds would not feel like contributing money now. Those parties going into that in that way might take the enterprise, and carry it to such a stage as would make it profitable to some extent, and bring a substantial return to the stockholders; and there could be some value given to the stock. And if that failed, if no value was given to the stock, such a course as that would limit the result to those parties who had taken the ten million of bonds, and, by a foreclosure of the mortgage, they would take all there was in the road. So that the State, in the event that the stock was wiped out, would, by its general ownership with others in the ten million of bonds, would eventually get the same enterprise in a paying form, while it is now where it is not a paying enterprise.

All such negotiations are of a somewhat delicate nature; and a great many gentlemen of large means who are interested in enterprises of this sort do not like to discuss before the public the means and measures they would like to take to get out of difficulties such as this road is in; and I think it would be a good thing to intrust with the Governor of the Commonwealth, particularly if the Governor had as much business-judgment and business-experience as the present Executive of the Commonwealth. I would intrust him with the task of conferring with the gentlemen, and see whether an arrangement of this sort could be made; and if he found it could be, and seemed desirable, he might so recommend to the legislature. There is always that misfortune, that the State can take no step without public discussion: that is something that cannot be helped; and we have got to make the best we can of it. The negotiations in the first instance, if conducted at all, must be conducted by some one person.

The Committee will find in the Report a proposition of that sort, which was considered by the Committee of last year. It may be found on page 7 of the Report: —

“It was also proposed that the State should join a syndicate to take all the ten-million mortgage-bonds as security, and advance the money necessary to pay all liens and outstanding indebtedness; to secure control of all

the property under one management, and put the entire line in good running order; the amount to be advanced, and the percentage the State should contribute, to be a matter of negotiation and future action; the Governor to be requested to confer with other parties interested in the enterprise in relation thereto."

That was substantially my proposition; and I believe I was the only person on the Committee who voted in favor of it. It is the proposition I refer to in the paragraph added to the majority report.

I don't know as I have any thing further to add.

Mr. —. If Mr. Haynes is right, the valuation of \$11,000 is less than the indebtedness, which is \$14,000 a mile. If that is correct, how do you see any margin for the State to put in any more money?

Mr. WADE. I shouldn't think there was. I should not think that was correct.

Mr. —. Assuming these figures to be correct.

Mr. WADE. Assuming those figures to be correct, I should want to look it over very carefully before I put in any more money. If the road is loaded down with a debt, if it has a debt which is larger than its value, there would need to be a great deal of caution and prudence in putting any more money in. But I would not say, that, in that case, I would not put any more money in. I would not say, that if I had a mortgage on a man's land and building, and the building was incomplete, that I would not put more money into it for the sake of giving value to it. I should want to look into it very carefully. But I do not accept those figures at all. I am very incompetent to speak on that point. I never was connected with railroad management, and do not claim to have any special ability. I am satisfied, on the best information I could get from railroad experts, particularly from the opinion of the Railroad Commissioners, that the road is worth much more than \$11,000 a mile, even in these hard times.

Mr. —. He stated that, as the finding of the Railroad Commissioners.

Mr. OSGOOD. On page 6 of their Report, the Railroad Commissioners say, —

"Judged by it, however, the appraised value of this road, as now equipped and operated, would not probably exceed \$11,000 a mile."

Mr. HART. If Mr. Osgood will read what precedes that, he will see that substantially they estimate the value at \$36,000 a mile. That is their own estimate upon it. It is all correct as it is stated: if you will look upon page 18 of the Commissioners' Report, you will get their valuation.

Mr. WADE. It was discussed in our Committee. As I understand the opinion of the Railroad Commissioners upon that point, they mean by this sentence just this, — taking the road as now equipped and operated, — the New-York and New-England Road, — I don't remember whether they included the Hartford, Providence, and Fishkill Road; but under the present circumstances, judged by the earning value, it probably would not be worth more than \$11,000 a mile. That is a very different thing from the value of that piece of property after the roads are consolidated under one management. As I said before, that is a subject on which I had to depend very largely upon the opinion of others.

Mr. ——. What bill could be passed to bring that about?

Mr. WADE. I should recommend that a resolve be passed containing substantially the words I have read from page 7 of the Committee's Report, — that the Governor confer with other parties interested in the New-York and New-England Railroad with reference to the formation of a syndicate to advance the money necessary to pay off the underlying liens, outstanding indebtedness, and secure control of the property under one management, and put the line in good running order, the percentage that should be contributed by the various parties, and the security which should be given. I could word it in a very short time.

Mr. ——. I wish you would do the Committee the favor to get up a resolution of that kind.

Mr. WADE. It will not require a great deal of ingenuity to do that.

REMARKS OF F. W. BIRD.

Mr. F. W. BIRD. I hardly know what I am wanted for here, and am still worse off in being unfit to say any thing.

In relation to this matter of the estimate of the Railroad Commissioners, you will find that the Railroad Commissioners do not say that this road is worth \$36,000 a mile, or any thing like it. In making an arbitrary valuation, it was put down at \$36,000 a mile. They do say that it earned on a debt of \$11,000 a mile. In another place they say the net earnings would seem to be about \$100,000 a year: that is what they say are the facts. There is an arbitrary valuation of \$36,000 a mile.

Now it seems to me that the proposition of my friend who has just sat down illustrates the difficulties of this question, and, allow me to say with all respect, the absurdity of any attempt at remedy; that is, that the State of Massachusetts should go into a syndicate with J. Gould, William Vanderbilt, and those fellows in New York, to see if it can't get more money out of this road than

they get. I don't think anybody in this legislature would vote for such a proposition as that : they would not discuss it.

There is one gentleman, Mr. Wade, thinks that it would be a great advantage to put into this arrangement a provision that the State should have a majority of the directors. The State has had a majority of the stock for the last two years, and has been choosing the directors ; it has owned three-fifths of the stock or more, and could have chosen every one of the directors if they wanted to. Then was the time to assert their power if it was thought desirable for the interests of the State to do it ; but they didn't do it. They have two or three respectable gentlemen on the Board who are supposed to represent the interests of the State : I don't understand they constitute a numerical majority of the Board, although, perhaps, a majority of the brains of the Board.

After all that has been said in favor of a loan of \$4,000,000, all that can be said is, that we can borrow money at four or five per cent, and lend it to this road at seven per cent, with a fair prospect of getting seven per cent on it, as the Report says that it will pay the interest on \$4,000,000.

I think, Mr. Chairman, and I submit to you as business-men, that if the State is to go into such an operation as that to save money, at least, by lending it to the Boston, Hartford, and Erie Railroad, I think we had better lend four millions, or ten or twelve, or fifteen or twenty millions, just as well as four, on other property in the State which is just as good security as it would get here, with a prospect of getting its money back. If that is the way the State is to get out of the loan which it has already made, it is a foolish operation ; but, if they are going into it, they can get better security, in my judgment, than this road offers. It could simply take a first mortgage on first-class property, which they could do anywhere at six or seven per cent : that would be a more profitable operation than this would be.

Mr. ——. Would that proposition be true at the present time, that you could not get a mortgage on property at less than seven per cent? Would it be true that good property could not be mortgaged for less than seven per cent?

Mr. BIRD. To-day I don't suppose first-class mortgages would bring seven per cent. But that has been the case. The State could go into other operations, and make more money than in this, and with better security.

The trouble about this matter all the way through, in this Report, was, we were dealing with uncertain premises. This matter of surplus revenue of this road ; that has been criticised somewhat.

There is a difficulty, which the gentlemen on the Committee met, and which we tried all summer to solve, and failed, — that was, What portion of this nominal surplus, apparent surplus of \$180,000, has really gone into permanent improvements which can be dispensed with hereafter? That is the trouble with all roads. All roads make returns of a surplus revenue. You see it in nearly all the returns. There are very few of them that have that surplus revenue in money, or investments that are convertible into money, for the payment of debts, or for the payment of interest on debts. There is the trouble, and there is the trouble in this case. I tried, according to my ability, all summer, to find out what was the fact in regard to this road, and could not. If I may be allowed to say it, I tried very hard indeed to get an expert to go on to the road, immediately after our appointment, who should go over every foot of the road, on foot and alone, and examine the condition of every rail and every tie, and every rod of the improvements on the road-bed, every bridge, and every culvert, station-houses, and cars, and give us an estimate that was perfectly trustworthy as to the actual value of the property to-day, and what the probability, or, rather, the certainty, must be, if that could be ascertained, as to the expenditures that must be made to keep it in proper condition. But the Committee thought it was unnecessary, and it was not done. The last part of the time, when they come to put in the exhibit, we found ourselves deficient in that very information. We gave instructions to a sub-committee to select such a man; but they didn't give the man the instructions that the Committee gave them, and we didn't get any information that was worth any thing. There is the difficulty.

When I find that this road has been increasing its debt for the last ten years constantly (I think it is true that it always owed more money at the end of the year than it did at the beginning), when I find, that in the last two years, since it passed into the hands of the present management, it has been selling its bottom bonds for eighty, I don't believe good managers, as these gentlemen are reputed to be, — I don't believe good managers of a piece of property like this would sell such bonds at eighty, if it had a surplus revenue, which was available, to be applied to the same purpose. That is the fact.

Now, so far as appears, there has not a dollar gone into this road for the last two years, in the way of improvement, which was not needed. There has been a few miles of extra steel rail laid; but I think more than the money spent has been realized from the sale of bonds. From the net earnings of the road, I don't think any thing has been expended more than to keep up the condition

of the road. So far as learned, so far as my judgment goes, my knowledge of railroad management, and knowledge of the condition of this road, there is no probability, hardly a possibility, that it will not need quite as large an amount expended upon it yearly, for the next ten years, as has been expended upon it during the five or ten years last past. In other words, the necessary expenditures for repairs and improvements must continue to be the same for the next five or ten years. I have not the shadow of a doubt about it, and that they will absorb the whole of the earnings of this road. And there is nothing in the way of proof that appears to the contrary, only the fact that there appears on the books to be a surplus of \$180,000. There has appeared to be just as large a surplus in years past, and always can; but there has never one dollar appeared to be available for the payment of debts, or for the payment of interests on debts.

Now, my friend from Newburyport made one proposition which was considered by the Committee: that was the loan of \$4,000,000 on the pledge of \$5,500,000 of bottom bonds, costing us, as we supposed, \$200,000 a year, and netting us \$385,000. Now he makes a different proposition,—for the loan of \$4,000,000 on a bottom mortgage, on the pledge of the entire earnings of the road, with a pledge of the bonds. Mr. Hart suggests that they might as well be all pledged for the loan of that \$4,000,000,—a bottom mortgage, a good lien on the whole road. Does anybody suppose that the stockholders of the road, or the other bondholders of the road, the trustees of the bondholders, those persons whose business it is to look after the interests of the road, are going to consent to that,—that the State shall take the entire proceeds of that road, have a prior lien on the whole earnings of the road to pay the interest on a loan of \$4,000,000? It confessedly does not relieve them in the slightest degree from embarrassment: it only transfers the indebtedness from where it is to-day,—scattered all over New England and New York, with Tom, Dick, and Harry,—and transfers it to the State. I don't believe the bondholders would for one moment entertain a proposition to surrender the whole income of the road, and give a prior lien to the State of Massachusetts for \$4,000,000. At any rate, I don't think such a proposition is worth taking up the time of the Committee until it is made by the road, and made legally, so it can be acted upon safely. I don't believe there is a man on the Committee, who is a lawyer, who will say that that can be done without the consent of the legislatures and courts of both of the other States.

Now, this proposition to put this stuff in the hands of the Governor and Council is absurd. Our own conviction about that is,

that the moment any quantity of it is put upon the market for sale, the price will go down practically to nothing: that I expect. That I expected when I approved of that proposition. I felt, as the chairman of the Committee expressed it, that it was better for the State, better for the road, that all connection between the State and the road should be ended; and therefore we made that proposition.

Now, I should be perfectly willing that the terms of the recommendation should cover that,—that the Governor and Council should transfer that stock, the whole of it, to their stockholders or bondholders, or any other parties. Those words, “any other parties,” were put in by my friend there, Mr. Haynes, for the purpose of covering the corporation, giving the Governor and Council authority to transfer this stock to the corporation. I am perfectly willing to give them all of it to-morrow; glad to give it to them to-morrow. Let them pay us \$5,000, take that stock, and we will quit. Practically it would come to that, if we should authorize the sale of it.

I have not the slightest idea that the State, or any of the holders of these Berdell bonds, will ever get one dollar from their Berdell bonds, whether they are converted into stock or not, except what they happen to pick up out on the street with them, as they do now. The amount of new conversions has been very small of late. I don't know what sum, and don't care: I imagine it is very small. We have put in a large amount; and any large amount of new conversions might affect the price of the bonds in the market. The people who are operating in these bonds practically know they are not worth any thing.

I made a pretty careful examination, with my friend from Newburyport, of the condition of the Hartford, Providence, and Fishkill Road. I have known a good deal about it for years. The superintendent is an old intimate friend of mine, and I keep posted up pretty well about it; have had his reports; and took some interest in the road. That road, as Mr. Haynes says, has paid about \$50,000 since it has been in the hands of the trustees. Last year it didn't quite pay the interest on its bonds. We have not got the Report of last year (1877); but that is the fact in regard to the previous year. They continue to pay that, and a little something more. The road is very carefully managed, very economically managed; and certainly, managed as that is, with all its resources nursed carefully, and devoted entirely to the development of the accommodation of local interests, nothing else,—no reaching after visionary shadows in the far distance,—that has managed to work itself up until it has paid out of its earnings

the interest on its debt. It has not been able yet to remove its floating debt. It is in very good condition now, and has been improving; so that the superintendent told me, that, unless the traffic should largely increase, the present equipment and condition of the road is such, that their expenses will be materially less hereafter, and the income will be over and above enough to pay the interest on the debt. As to the road being worth \$3,000,000, anybody can guess; but the capitalists of Hartford know just about its condition, and are willing to pay only a hundred and seven to-day for its bonds. But, if they agreed with my friend from Newburyport, instead of bringing a hundred and seven, they would be worth a hundred and fifty to a hundred and seventy-five. They are worth a little more than the face of the bond: the road pays a little more than the interest, with good management.

Whether that road, which is managed now by men living in the vicinity, would be better managed by the parties who have managed the Boston, Hartford, and Erie, or New-York and New-England for the past two to five years, with the history of the two before us, you can judge as well as I. They pay their interest right along every year: this road has not paid any interest. I don't believe the two roads could be united, and run as profitably together as they are run separately. I don't believe any union would be advantageous to either one. Yes, I think it would be advantageous to this road, because I think that property is worth a great deal more than this property is. If they could get it, it would be some gain to this road.

There is another thing that should not be lost sight of, — the existing law-suit. There is no doubt about it: influential parties have brought a suit denying the right of this road to redeem the Hartford, Providence, and Fishkill Road. It is easy enough for their counsel to laugh them out of sight; but that don't settle them: they have got to come before the court for adjudication, and they will come to trial, no doubt. I am no lawyer, and have not made an examination for some years past; but, two or three or four years ago, I examined the question considerably; but we found sufficient other ground for deciding the question adversely, and therefore we made no reference to it in our Report. There are such suits existing, and real questions raised by parties who mean to carry it through, there is no doubt. What it will come to I don't know. I think we had better not buy into a law-suit.

I will answer any question any gentleman desires to ask me.

MR. TUCKER. Do you think on a loan of \$4,000,000 the interest would be secure on this road?

MR. BIRD. Fairly so.

Mr. TUCKER. Why should it, if it has no surplus?

Mr. BIRD. I said, "fairly." I don't know: we put it pretty cautiously in our Report. I mean to say at five per cent, what the State would pay out; but the surplus to help us pay up our old debt, leaving out the question of policy of resorting to this method of paying old debts —

Mr. TUCKER. If there is no surplus from the earnings of the road, except what they have to use for their yearly necessities, I cannot see where you get any money to pay the interest on a four-million loan. That is what I want to find out. You say in your Report that it is reasonably secure.

Mr. BIRD. Well, that is \$200,000. The income of the other road is \$160,000. I should think likely the net income on that road would be likely to be about that.

Mr. TUCKER. You rely upon that road to pay the interest?

Mr. BIRD. Oh, yes, sir!

Mr. —. Would it help the matter some to transfer that management to this end?

Mr. BIRD. I think it would. I am very much prejudiced against these gentlemen.

Mr. TUCKER. Why do you think those bonds would sell for \$150 on the hundred if the road was worth three millions?

Mr. BIRD. If the road was worth three millions, the bonds representing only three millions, paying seven per cent on that: seven per cent on two millions of bonds, the income — That would be the income.

Mr. TUCKER. A man would not get more than seven per cent interest on his bond, no matter how much the property was worth, would he?

Mr. BIRD. No: that is true; but a seven-per-cent bond is worth one hundred and thirty or forty.

Mr. TUCKER. The stock of the Cambridge Horse Railroad is a pretty permanent investment, and stands at a hundred and twenty, or thereabouts. That pays nine per cent; with taxes out, about seven and a quarter; and that has stood at a hundred and ten.

Mr. BIRD. I made a mistake on that. Charge it off, and discredit so much of my statement. I was thinking rather of stock than bonds.

The CHAIRMAN. I think two gentlemen of the Committee have stated that it was apparent to them, on investigation, that the road had improved in its actual condition and in its prospects under the present management, showing an increasing prosperity under the present management. Do you subscribe to that?

Mr. BIRD. That the condition of the road has improved in the

last three or five years, there is no doubt at all; that it will need quite as much expenditure hereafter to keep it up, I have also no doubt; as to prospects of increase of earnings, I can tell better when the next return is made.

The CHAIRMAN. You subscribe to the general statement, that the present management of the road is to be commended?

Mr. BIRD. I haven't said so.

The CHAIRMAN. I ask you if you do?

Mr. BIRD. No, I do not think it is good management, frankly. I subscribe to all that has been said as to the personal character and best purposes of those gentleman as shown in the management of this road, and never had any other opinion. That I have nothing to say about. I have had no quarrel with them on that ground.

But I do think the policy of the road is very bad. That policy is a constant reaching for through business; making expenditures for through business, and neglecting the local business of the road. That is the trouble to-day.

Mr. ——. Do you think that last year was a fair average year for money-making on a road?

Mr. BIRD. I don't think it was.

Mr. ——. How, in your judgment, would it compare with ten years in the past or future?

Mr. BIRD. I could not answer that question; I should want to take the railroad-returns for the last ten years, and it would take a good while to do it. We all know the business of the community has been depressed, railroads as well as others. There has been a large amount of business: the traffic on the road has been very large the last three or four months. But the property has decreased about in proportion to the increase in travel.

Mr. ——. Year before last this road did a very large business, brought on by the Centennial celebration: this year it had none of that business, and yet it had an increase.

Mr. BIRD. The less they had, the better off they were.

Mr. ——. It actually brought them a good deal of money.

Mr. BIRD. Net, not a dollar.

The CHAIRMAN. The road has greatly improved within five years, you said. To what is that due?

Mr. BIRD. I admit the management has been better under these gentlemen. The daily management has been vastly better under these gentlemen than it was under the Boston, Hartford, and Erie directors, who did not care about any thing but swindling the State out of money to spend in gambling in New York and Boston. The management of the road has improved, and the income has

improved; and they have improved the condition of the road: there is no doubt about that. The question before us is, What is the prospect for future earnings over and above the past?

Mr. ——. What do you mean by local business? How far out does local business go?

Mr. BIRD. I mean business which legitimately belongs to the road. I can't define exactly what is meant by local business. I mean business which legitimately belongs to a road, which is reasonably secured to a road free from competition with other roads, in accommodating which they are not required to compete with other roads at unremunerative prices. Every road has its own business which properly belongs to it, and cannot be taken from it by any other road.

Mr. ——. You know the history of this road from the beginning. What was the purpose of it?

Mr. BIRD. It was originally chartered as a local road from Blackstone to Boston.

Mr. ——. That was originally the purpose. That was in 1847.

The CHAIRMAN. Have the Committee any other questions to ask Mr. Bird?

The hearing will be suspended here for to-day, and an opportunity for a further hearing will be given.

Adjourned.

NEW-YORK AND NEW-ENGLAND RAILROAD CO.

PRESIDENT'S OFFICE, 224 FEDERAL STREET,
BOSTON, Feb. 28, 1878.

To the Joint Committee on Railroads of the Massachusetts Legislature.

MR. CHAIRMAN AND GENTLEMEN, — At the close of the last hearing before you in relation to the Commonwealth's interest in the New-York and New-England Railroad, a suggestion was made, that the statements presented by the officers of the Road should be handed to the committee in print.

In accordance with that suggestion, I have the honor to submit herewith a stenographic report of the hearing, and copies of the several papers referred to therein.

As the proposition made by the directors of the New-York and New-England Railroad Company to the joint special committee of 1877, and renewed to your committee, is the principal subject under consideration, and as it was not read or stated at length in the hearing, I have deemed it proper to insert it in the first pages of this communication. I would also remind the committee, that the railroad company has consented to a modification of this proposition to the extent that the Commonwealth shall retain the ownership of its stock.

It was our intention at the hearing on the 19th, if time had permitted, to have made further reference to some portion of the testimony of the majority of the committee who signed the report (House Document No. 2); and also to present some other considerations which we think should be brought to the notice of the committee and the legislature, in order that they may have all the facts before them, and

thus be able to judge of the policy of accepting the proposition submitted by the railroad company. A brief statement of these considerations is therefore annexed.

A computation showing the absolute money gain and saving in taxation to the people of the State by the acceptance of the proposition of the company, and a table giving the population and valuation of the cities and towns on the line of the New-York and New-England Road, as compared with similar statistics on the line of the Boston and Albany Road, both of which were referred to at the hearing, together with a map, upon a small scale, showing the location of the road and its connections, are inserted in an appendix.

Very respectfully, your obedient servant,

WM. T. HART,

President N. Y. and N. E. R. R. Co.

PROPOSITION OF THE RAILROAD COMPANY.

NEW-YORK AND NEW-ENGLAND RAILROAD COMPANY.

PRESIDENT'S OFFICE, 224 FEDERAL STREET,
BOSTON, Sept. 15, 1877.

To the HON. FREDERICK M. STONE, TILLY HAYNES, EBEN F. STONE,
FRANCIS W. BIRD, and LEVI C. WADE, *Committee of the Massachusetts
Legislature.*

Gentlemen, — Acting upon the suggestion made by you at our last meeting, and with a view to relieve the State from any further payments in consequence of its loan to the Boston, Hartford, and Erie Railroad Company, I have the honor to submit herewith, on behalf of the New-York and New-England Railroad Company, the successor of the B., H. and E. R. R. Co., a proposition which we have thought very liberal towards the State, and yet a perfectly reasonable and proper one for us to make, keeping in view the rights of all other parties similarly situated.

We trust it will receive your approval as representing the interests of the Commonwealth in the property of this company.

In 1870 the Commonwealth of Massachusetts issued its scrip to the amount of \$3,600,000 to aid in the completion of the railroad of the Boston, Hartford, and Erie Railroad Company, and received in exchange bonds to an equal amount, issued by said corporation. These bonds were secured by mortgage, and were part of an authorized issue of \$20,000,000, the whole of which were negotiated.

The mortgage has since been foreclosed, and a new corporation organized by the bondholders, under the name of the New-York and New-England Railroad Company, with a capital stock equal to and exchangeable for the principal of said bonded debt.

The Commonwealth, by the conversion of its bonds, has become the owner of \$3,600,000 of stock in the new corporation, upon which no dividends have yet been received; and it is compelled to

pay, as interest upon the scrip issued by it in 1870, an annual sum of \$180,000, for which it receives no equivalent. The principal of this scrip, which becomes due Jan. 1, 1900, will be met by a sinking-fund available for the purpose.

The New-York and New-England Railroad Company has become the owner, by such foreclosure, of 345 miles of railroad, extending from Boston to Willimantic, and from Providence, via Willimantic, Hartford, and Waterbury, to Fishkill on the Hudson River, and from Brookline to Woonsocket, including several branches of said main roads. Between Waterbury and Fishkill, a distance of about 76 miles, the road is still unfinished.

Portions of the property are subject to various mortgages and other liens to the amount of about \$4,000,000.

For the purpose of completing the road, and discharging these debts so as to obtain an absolute title to its property, free from all encumbrance, the corporation has been authorized, by the concurrent legislation of Massachusetts, Rhode Island, Connecticut, and New York, to execute a mortgage, and issue bonds secured thereby to an amount not exceeding \$10,000,000.

A mortgage has been made, bearing date Jan. 1, 1876; but it has been found impossible to negotiate the authorized issue of bonds at a satisfactory price, owing to the unprecedented and indiscriminating distrust of all railroad investments which now exists in the community.

In the mean time, the earnings of the road have been expended in the improvement of the property; so that it is now estimated that the sum of about \$6,000,000 will sufficiently meet the purposes for which such mortgage loan was authorized.

It is for the manifest interest of the corporation and its stockholders to obtain this money without sacrificing its securities at panic rates, and it is for the manifest interest of the Commonwealth to be relieved from the annual charge of \$180,000, which it is now compelled to pay, and for the reimbursement of which the thirty-six thousand shares of the capital stock of the New-York and New-England Railroad Company, which it now holds, affords very insufficient security. It is believed that both these ends can be accomplished; and, with a view to this result, the corporation respectfully submit the following proposition:—

First, That the Commonwealth shall issue its scrip for \$6,000,000, payable Jan. 1, 1905, with interest semi-annually at the rate of five per cent per annum; and shall cause the same to be sold by an agent of its own selection, and the proceeds thereof applied by such agent, first, to the purchase or discharge of all the in-

debtedness of the corporation or to which any of its property is subject, and, second, to the completion of the road to the Hudson River, and equipping the same for use.

Second, That, in consideration thereof, the New-York and New-England Railroad Company shall enter into an obligation to pay to the treasurer of the Commonwealth the principal of said scrip when the same shall mature, and the interest thereon as the same becomes due; and shall further pay to said treasurer, in equal semi-annual payments, on the first days of January and July in each year, until the first of January, 1900, the sum of \$180,000 per annum; and as security for the fulfilment of such obligation, shall deposit with such treasurer bonds to be issued under its authorized mortgage to the amount of \$9,000,000. [And upon the fulfilment of these stipulations by the New-York and New-England Railroad Company the amount of stock now held by the State shall become the property of the company.]¹

The effect of this scheme would be, that the Commonwealth would risk the payment of \$300,000 per annum, and would receive in return an obligation to pay \$480,000 per annum, secured by a first lien on all the property of the corporation.

The effect to the corporation would be, that it would receive a sum sufficient to complete its road, and free it from debt for an annual interest charge of \$480,000, which is only twenty-four per cent of its present gross earnings. That these earnings will be largely increased by the completion of the road to the Hudson River, and its consolidation under one management, can hardly be doubted.

Very respectfully, your obedient servant,

WM. T. HART,
President N.Y. and N.E. R.R. Co.

¹ The Railroad Company, at a hearing before the Railroad Committee, consented to a modification of this proposition, by striking out the provision enclosed in brackets in relation to the ownership of stock.

REPORT OF HEARING
ON THE
NEW-YORK AND NEW-ENGLAND RAILROAD.

THE Committee on Railroads of the Massachusetts Legislature met at ten o'clock A.M., Tuesday, Feb. 19, 1878, and a hearing was had, of which the following is a stenographic report:—

The CHAIRMAN. The report of the Special Committee on the New-York and New-England Railroad is under consideration to-day, and the Committee are present to hear from the officers of the road.

WILLIAM T. HART (*President of the New-York and New-England Railroad Company*). Mr. Chairman, I regret very much to inform the Committee that the counsel of the company, Mr. Baldwin, has been obliged to leave the city and country on account of ill-health. He sails from New York to-day. We appear here without counsel; and I do not know whether it is necessary to have any, the subject being a very simple one.

If the Committee have no direction to give as to the order of proceeding, I would like to have them listen to a statement which has been prepared by our General Manager, who has been familiar with the road since the Receivers took possession of the property. He was associated with them, and is familiar with all matters connected with the road, as much as, if not more than, any other person. He has prepared a statement of the business of the company, including all points which he thought would be of interest to the Committee. If agreeable to the Committee, he will now make his statement; after which we will proceed, if we have time, with some other matters.

We very fortunately have present two of our New-York Directors; and I think the Committee may be pleased to hear from them in regard to the business to come from the State of New York, and the feeling in New York in reference to this company by those who own its securities to a large amount, and are interested in its connections. We have an opportunity to hear from them, and the

Committee can ask any questions that are necessary to elicit information. Mr. Charles P. Clark, our General Manager, will now make his statement.

STATEMENT OF THE GENERAL MANAGER.

Mr. Chairman and Gentlemen,—A judicious decision of the question to which we address ourselves to-day depends upon the consideration of a great variety of facts; and I must ask you to bear with me while I attempt to place these facts before you in some order.

HISTORY.

A little more than eight years ago, the Boston, Hartford, and Erie Railroad Company became hopelessly insolvent. It had a capital stock of twenty-five millions of dollars, a mortgage debt of twenty millions, an underlying mortgage debt of two millions and a half, and a floating debt of nearly nine millions. It stood upon its own books at about fifty-five millions, including capital stock and debt. Its treasury was completely drained; its managers had lost the confidence of the community; the road was earning barely enough to keep its trains in motion; but it came to the Legislature as an applicant for further aid.

At that time the Commonwealth had no interest in the property, excepting the loan of its credit for three million six hundred thousand dollars, for which it was in possession of an equal face value amount of "Berdell Bonds," which it had as collateral. At that time the debt underlying those bonds was substantially the same as it is to-day. But the best security the Company could give for any further assistance was necessarily subordinate to the already existing debt of twenty millions, known as the Berdell mortgage, as well as to the debt, then as now underlying, subject to this twenty-million debt. The application was granted by the Legislature, after a series of protracted hearings, reported in Senate Document No. 133 of 1870; but the bill failed to become a law through the action of the Executive.

The Supreme Court of the Commonwealth, in the summer of 1870, some six months after these hearings, at the instance of a New-York party, appointed Receivers, and the road passed into the possession of its creditors, not only in Massachusetts, but by the force of similar decrees from appropriate tribunals in Rhode Island, in Connecticut, and in New York.

As to all that antedates this transfer I shall have nothing to

say ; but with what has transpired since the appointment of Receivers I have been somewhat familiar, and, in what I may have to say, shall consider myself rather in the position of a witness than in that of an advocate.

At the time of this transfer, the road was incomplete as to a necessary link between Putnam and Willimantic. It is true that it maintained the lease of the Norwich and Worcester Railroad, and therefore controlled a line through the Sound to New York ; but it could not directly reach Hartford, New Haven, or New York, by a rail line, and it was operated entirely as a local road. Indeed, the lease of the Norwich and Worcester would have been forfeited but for the advance by the Receivers of more than one hundred thousand dollars, which was in arrears from the Boston, Hartford, and Erie Corporation. The Receivers judged that the completion of the link between Willimantic and Putnam, in the State of Connecticut, would add very much to the business and to the importance of the road. Something like two millions of dollars had been expended on this twenty-five miles ; and about four hundred thousand dollars more, necessary for the completion of this link, was secured by the issue of Receivers' certificates of indebtedness, which were made by decrees of court a first lien upon it.

It was evident that a foreclosure of the Berdell mortgage must be made in order that a good title to the property might be had ; but the Receivers were authorized to continue in possession of the road until such of the debts of the old Company as the court had directed them to pay, including that for the Norwich and Worcester lease, as well as those for supplies for some months previous, and such other debts as they had contracted in the discharge of their duties, had been paid, while possession by the Trustees was a necessary preliminary step to foreclosure.

It was a long and hard struggle to induce the holders of the Berdell bonds to unite in any effective action to transfer the possession of the road from the hands of the Receivers. The Corporation at this time had passed into the nominal control of New-York parties, representing the stock of the Boston, Hartford, and Erie Railroad Company, who met them in every court with the corporate name, and disputed the bondholders' rights. It was evident that this stock interest would be a serious and continual trouble technically, and would greatly delay, if not entirely defeat, the necessary steps to acquire title of the property in the mortgagees. A committee of the bondholders was formed early in the fall of 1870 ; and the State was represented upon that committee, at first

informally, but subsequently under the provisions of chap 4, Resolves of 1871.

Counsel advised that the interference of the bankrupt corporation must be prevented. Upon the petition of members of this Bondholders' Committee to the United-States Court, a warrant in bankruptcy was issued; and thereafter all the rights of the corporation were vested in the assignees in bankruptcy under the United-States Bankrupt Act, whose duty it was to care for the assets of the Company not covered by the mortgage, and to represent the stockholders of the Boston, Hartford, and Erie Railroad Company in any matter in court.

It is important to note that there have been three parties interested in the administration of the affairs of the Boston, Hartford, and Erie since its failure, — the Receivers, who were in possession from August, 1870, to August, 1871; the Trustees under the Berdell mortgage, who operated the road during the eighteen months necessary for foreclosure; and the Assignees in Bankruptcy, who have never had possession of the property, but who have represented the Boston, Hartford, and Erie Railroad Company as a matter of law.

THE COMMONWEALTH'S INTEREST.

Before the Commonwealth could take any effective action in relation to the railroad, it was necessary that the Boston, Hartford, and Erie should relinquish its right to redeem the bonds held by the State as collateral. As it was manifest that this right was only of technical value, the assignees in bankruptcy, representing that corporation, made a release to the Commonwealth; and the State thus became the owner of these bonds, and was placed for the first time in the same relation to the property itself as the other bondholders.

Upon the request of the Governor of the Commonwealth and of other bondholders, Mr. Hart, Mr. Olyphant, and myself, became and were confirmed by court in July, 1871, as the Trustees under the Berdell mortgage.

We naturally applied to those interested to furnish us with the money to pay the Receivers, and to obtain possession of the property for purposes of foreclosure; and the State of Massachusetts, under chap. 90 of the Resolves of 1871, advanced \$72,000 in cash, while other bondholders advanced about \$100,000: which was sufficient to pay the Receivers' debt, excepting that represented by their certificates of indebtedness issued to pay for the completion of the road between Putnam and Willimantic; and

these have since been paid, and together form the nucleus of the debt of the present corporation.

With the subsequent steps the Committee are doubtless familiar.

The road was operated by the Trustees until the mortgage was foreclosed ; a meeting of the bondholders was called, and the New-York and New-England Railroad Company was organized, all in precise conformity with the terms of the mortgage-deed to Berdell and others. All the proceedings have since been ratified and confirmed by the courts and legislatures of all four of the States.

The Commonwealth's bonds were exchanged for stock in the company, as provided by the mortgage, and authorized by the provisions of chap. 80, Resolves of 1871 ; and the Company was entitled to a conveyance of the property from the Trustees upon settlement of their trust debt.

Even then it was difficult to induce the owners of the property, for whom we had secured a good title, to repay us the money which we had been obliged to advance or expend to foreclose the mortgage. We came to the Commonwealth again ; and under the terms of chap. 73, Resolves of 1874, \$250,000 was advanced by the State. We paid them back the \$72,000 and interest ; and on the 28th of July, 1875, the New-York and New-England Railroad Company came into possession of its property under a good title.

It is in this way that the State is now the holder of the Company's note for \$250,000 ; there having been no authority granted by the Legislature to exchange the note for the Company's bonds, as has been done by most of the other holders. And you will note carefully that this is the only debt of any kind owing by the Company to the Commonwealth, and that the interest upon this note has been regularly and promptly paid by the Company to the State Treasurer at seven per cent per annum.

DEBT OF THE COMPANY.

I have said that the debt made first by the old corporation, paid by the Receivers, transferred to the Trustees, finally paid by the present (New-York and New-England) Company, was the nucleus of the present debt of the Company. But it is not the whole of the debt of the Company, and it is proper now to consider how that debt came to exist.

The report of the New-York and New-England Railroad Company and that of the Railroad Commissioners (House Document 325, 1877, p. 4) shows that the net debt of the Company on the

30th of September, 1876, was substantially \$1,000,000, — \$1,011,201.48; and the question is a very pertinent one as to the occasion for this debt, when none of the earnings of the road have been applied to the payment of dividends.

And, if this is the legitimate result of the operation of the road for six years, — say from August, 1870, the time at which it went into the hands of the creditors, to September, 1876, — it would seem to be a discouraging result; but if gentlemen will look at p. 4 of House Document No. 325 of the year 1877, being the Report of the Railroad Commissioners on the New-York and New-England Railroad, they will find a statement of unusual expenses attending the foreclosure of the Berdell mortgage, payment of Receivers and Trustees, and Assignees in Bankruptcy, and construction account, amounting to \$1,568,056.18. To this amount should be added the payment on Norwich and Worcester lease account, shown on p. 20 of the same document (say \$270,741.36, less the first item of that exhibit, \$106,816.71, which is already included in the first-mentioned amount), or net \$163,924.65. I call this an unusual expenditure, as the lease is now self-sustaining. Together these show what the Commissioners call unusual expenses of \$1,731,980.83, all of which would have been outstanding as debt in 1876 but for the application of the net earnings of the property during the six years; which net earnings reduced the amount about \$750,000, leaving it but \$1,011,201.48.

INCOME AND CONDITION OF ROAD.

This result, gentlemen, is shown by the figures with which you are all furnished in the reports of the company of the Railroad Commissioners (House Document No. 325, 1877), and of the Joint Special Committee of last year (House Document No. 2, 1878). It is not a brilliant one, and in many respects it does not fairly represent facts. The revenue of 139 miles of road has been forced to bear the general expenses of a system covering more than 400 miles. It has been made unfair by charging, against operating expenses, repairs which should have been spread over a series of years prior to the time when the creditors came into possession. The amount disbursed in any department has been limited only by the earnings, after paying the expenses, interest, and taxes.

The physical condition of the road in 1870 was wretched. Almost every bridge required renewal. The power was deficient in quantity and quality. Both cars and locomotives were unprovided with train-brakes. There were no Miller platforms, nor any right

to apply them. Not a fish-plated rail was in use on the road. The buildings and platforms were in such condition, that the treasury was drawn upon almost every week to pay for sprained ankles and broken wrists. The road had little or no business, excepting that existing upon its own lines. But from that day its gross earnings have been steadily increasing.

Look at the figures for the year ending Sept. 30, 1871 :—

The earnings were	\$691,851.94
For 1872	841,391.74
For 1873	857,114.00
For 1874	915,290.23
For 1875	915,880.13
For 1876	1,000,482.26
For 1877	1,010,336.84

These are actual results, and show the growth of the business done by the road. The net is small, because the improvements were extensive, and largely charged to operating expenses.

RAILROAD ACCOUNTS.

We have now seen what the results were up to September, 1876 ; and will take up those of the year ending September, 1877, in regard to which questions have been asked by some members of the Committee. Before analyzing the accounts for the last year, let us examine railroad accounting in general, which presents difficulties to many minds. Perhaps it may be better understood if we take some other kind of business by way of illustration. Suppose, if you please, the case of Mr. Jones, who owns a store upon which there is a mortgage. He has a stock of goods, for which he owes more or less money. He buys and sells goods during a year, and upon the first of October he desires to know how he stands. Now, just what does he want to know? He may have a purchaser for his business, and desire to show what that business has yielded ; or he may wish to satisfy himself as to the value of his entire estate.

If he wants to know what the value of his business is, he will take an account of his stock, of the cash on hand, of the debts due to him considered good ; and from the sum of the stock, and the cash on hand, and the good debts due him, he will deduct the amount of his debts. He must further modify the result by taking into account whether he owes more or less money for this stock of goods than he did at the beginning of the year. This is the basis upon which Mr. Jones will make up his accounts, if his object is simply to show Mr. Brown, who is thinking of buying the

business, what its value is, and what the good will of the store is worth.

If, however, he wishes to know what he is worth, he will not only satisfy himself as to the net results of his business as in the first case, but he will also take an account of his entire estate. Suppose him to have built an addition to his store during the year, the cost of which he paid out of the proceeds of the sales of goods: it would have been manifestly unfair to deduct the cost of this addition to the real estate from the profits of the business when he made up his accounts to show Mr. Brown, though it may be a very important element in deciding the value of his own property. Although not in cash, and not even invested in the business, it is still an asset in his estate.

And again: if during the year he has paid off the mortgage which originally existed on his store from the proceeds of his business, it would be unfair to charge this mortgage-debt to the store in accounts for Mr. Brown to examine, although the payment of this mortgage has made his own estate worth so much the more. He has no more money or goods on hand, perhaps, and owes as much for his stock as he did at the beginning of the year: but he has not only paid off the mortgage upon his store, but possibly he has also built an addition to it; and in both these respects his estate is the more valuable.

It may so happen that he has neither diminished his mortgage-debt, nor has built any addition to his property. In this case, the business being equally profitable, he will find either a larger stock of goods on hand ready for sale, or he will find more good debts due to him, or more cash in hand. In this latter case he is no better off than he was to have paid the mortgage upon his store, or to have built the addition to it, provided the addition is worth the cost when he comes to sell it, or is an advantage to him in conducting the business in it.

So in the operation of this railroad, or of any other, as shown by its accounts: the net profits at the close of the year may not be in cash, or may be partly in cash and in materials and supplies on hand; or they may be in new engines or new cars; or they may have gone into improvements of the road, or into permanent buildings: they are none the less real; and the property is so much the more valuable, just as it was in the case of the store.

The State, however, prescribes a method in which the accounts of railroads are to be kept; and it orders that accounts shall show not only the condition of the Company in the capacity of owner of its property, but also the results derived from its operation. The

condition of the property is shown under the heads, "Length of Roads and Branches," "Permanent Improvements," "Addition and Reduction of Property Account," &c.; while the results of the business are shown in the columns in the Commissioners' Report, where the general transportation, earnings, and expenses are compared. The plant of a railroad, including its real estate, fixtures, branches, and franchises, represents the store; and any mortgage upon it stands against the mortgage on the store, while its supplies, material on hand not used, unexpended coal, &c., represent the stock in the store.

The accounts of the Commissioners show, not only what the plant itself has cost, but they show, by another and entirely independent series of figures, the results of the use of the plant during the year.

In the remarks which have been made in regard to the six years from 1870 to 1876, the result shown is that of a profit of about \$125,000 a year over disbursements of every name and nature, including interest and taxes and betterments; and these disbursements have included the rents of property in Boston and at other points which were not owned by the Company.

In a fair statement of the earning capacity of the road in comparison with other roads, it is manifestly unfair to deduct as legitimate operating expenses the disbursements for rent of terminal facilities. It is because the road is incomplete that the necessity for rent arises. The cost of every foot of the property occupied by the Company should have been defrayed by the Boston, Hartford, and Erie Railroad Company, and should have no more called for rent from us than the road-bed or the rails.

But the cost of these rents should not be neglected in any statement of the condition or valuation of the property. It is only in comparative statements that the objection lies. Every other road has an expense to meet for its terminal facilities; but the only difference is, that these expenses in the case of the other roads are called interest if the property was bought on credit, or dividends if the cost was paid by capital stock.

NET INCOME IN 1877.

The Second Annual Report, p. 15, of the Corporation, states the net income over operating expenses for the year ending Sept. 30, 1877, to be \$250,991.16.

This represents the result of its net earnings for the year. The Railroad Commissioners, however, considered the rent of the property in Boston, and the taxes, say \$55,268.77, and \$11,339.02;

operating expenses; and they therefore deducted the sum of the two, say \$66,607.78, and leave the net income at \$184,383.37, as shown on p. 184 of the Railroad Commissioners' Report for 1877, and as referred to on p. 12 of the Report of the Joint Special Committee.

Admit that this is the net income of the property; and the question is asked, What has become of it? Let us answer frankly. Column 33, p. 209, of the Railroad Commissioners' return, will show an expenditure during the year, for construction, of \$33,718.-76. This was the cost of double track, and of the improvements at Franklin.

Column 39 shows an expenditure of \$8,600.05, being for new equipment. These were passenger-cars necessary for the operation of the road, and are in daily use upon its trains.

Column 40 shows an expenditure of \$28,881.23 for the purchase of encumbrances upon the property. These represent additions to the property account. They are like the addition to the store, and the reduction of the mortgage upon it.

The floating debt of the Company was reduced during the year to the amount of \$10,571.56, as will be shown by a comparison of the balance-sheets Sept. 30, 1876, and Sept. 30, 1877. This is like the payment of the debt on the stock in the store.

There was paid as interest upon the debt of the Company \$68,-486.16; for discount upon the bonds sold during the year, \$12,000. Sundry items were charged to profit and loss, as accounts of no value, \$33,375.61. There were bad debts which had been made and charged off.

Together, these make the amount \$195,633.37, which is in excess of the amount for which we are accounting. The difference may be found in column 42, on p. 212, of the Railroad Commissioners' Report, \$11,250, — an amount which stood on our books as an underlying lien, but was paid by funds derived from litigation, inaugurated and brought to a successful issue by the Receivers; a debt which our imaginary Mr. Jones thought he would have to pay, but which he was relieved from paying.

It will thus be seen that the \$184,000 is accounted for in putting an addition on the store, which cost about \$34,000; in increasing our stock of goods to the extent of about \$9,000; in paying off the mortgage-debt to the extent of about \$28,000, and the floating debt to the amount of about \$10,000; by defraying interest charges to the amount of about \$68,000; and by charging off the balances of bad debts to the amount of about \$33,000. And every dollar and every cent of the net income is accounted

for. It was not in cash on the 30th of September; because all not needed to pay interest had been expended to improve the property, or to reduce its debts.

So much in regard to accounts.

POLICY OF THE MANAGEMENT.

And now in regard to the policy in the operation of the road. One gentleman who has testified before you stated that he thinks the policy of the management is very bad, and defines it as a constant reaching after through business, and neglecting the local business of the road, and says that that is the trouble.

Now, Mr. Chairman, when the road came into the possession of the creditors in 1870, its earnings were very small. For the ten months ending Sept. 30 of that year, they were but \$470,732.39. It had no Western connections, and it did all the business that was offered it; and a slow increase of the earnings was all that could have been expected, if the business was confined to the same sources. The panic of 1873, and the depression which has prevailed ever since, would, however, have interfered with this reasonable expectation.

The great drawback upon the prosperity of the manufacturing community in New England through which this road runs arose from the fact that it was unable to afford facilities upon its line which could, to any extent, compare with those offered by other communities situated along the lines of other roads.

FREIGHT BUSINESS.

It may not be entirely out of place, Mr. Chairman, to call your attention to the principles upon which the earnings on fourth-class traffic is apportioned among the roads. The bulk of raw materials and food moved by the great trunk lines from the West and Southwest to the East is included in this class. All through tariffs are based upon the rate between Chicago and New York for the time being; and tariffs from other points in either direction, including those to points in New England, are made by additions or subtractions of this standard rate.

Sometimes we have had the same rate to Boston that has prevailed to New York, and at times the charge has been higher. Differences have also prevailed upon the same kind of merchandise, depending upon whether intended for shipment or for consumption. These differences, however, need not be taken account of here. The general rule is, that, upon all freight coming into New England, a division of the through rate is made at Albany;

and the part to be earned by the roads east of that point has been fixed by a percentage representing the actual distance between Albany and Boston, compared with that between Chicago and Boston. This percentage is a fraction less than one-fifth of the through rate, and is commonly known as the New-England division. The charge upon a carload of freight is the same after it passes Albany, east bound, whether it comes through to Boston, or is left upon the line of the Boston and Albany Road, whether at Pittsfield, Springfield, Worcester, Framingham, or Natick. The charge also is the same if it passes on to other roads which are associated with the Boston and Albany Road in the through lines, either destined for their local points, or to their termini.

In our case it was impracticable, from our geographical situation, to associate our road in these Boston and Albany lines. We could not have sustained our road upon the amount coming to us as our share in the New-England division; and there was no possibility of compensating us for this loss by securing additional business, our road reaching points which were served by roads already in the association. The charge, therefore, to every man on our road receiving a carload of breadstuff from the West, was higher than that paid by his neighbor on the Boston and Albany by the amount we charged for hauling that carload from Boston or from Worcester to its destination on our road. Our customers paid a local tariff upon grain, cotton, or flour, which, for the service rendered, yielded us an adequate return; but the cost to him was greater by our charge than the cost to his neighbor in Springfield, Brookfield, Worcester, or Natick.

The question of policy arose at once as to what practicable relief we could afford. No one could be expected to locate on our road, or, if located, could compete with those supplied at lower cost with raw material, or with food for operatives, upon these other lines. We were obliged to do this, because the road was incomplete, and unable to establish its line to and across the Hudson River, by which our customers could be supplied direct from the West. We must continue either to operate the road as a strictly local road, under these disadvantages to the local communities, or we must find at once some Western connection.

We could not sacrifice our earnings by supplying these local wants, and hauling this freight free from Boston or from Worcester, — the points at which we connected with through Western lines, — as we were dependent upon the earnings from this class of traffic to keep our road in order and in operation. The establishment of a new through line ourselves would indeed oblige us to

take as our share of freight-money on raw material or breadstuffs for consumption at these local points less than we could secure by continuing to haul it from Boston or Worcester. But the establishment of such a line has created for us a new business to these competing points, and at a price which enables us to earn money in place of that previously charged on the freight destined to strictly local points: and this has justified us in benefiting those local points by the reduced cost of their freight, because, by the arrangement for a through line, we are able to bring a carload of corn or of flour from Chicago to Franklin as cheaply as it was brought from Chicago to Boston, and less than it had previously cost the consumer at Franklin by the amount we had hitherto exacted for its transportation from Boston out to him at Franklin; and thus the consumer at Franklin has been put on an equality with the consumer in Framingham, whose good fortune it was to live upon a line doing a Western business.

So it is, that our desire to develop the local resources of our road (which we understand are at the foundation of permanent prosperity) in the only way it was possible to do it has been criticised by one of the Joint Special Committee, who charges against us that we have been neglecting our local, and reaching out for through business. Nothing so clearly demonstrates ignorance.

But there is also another element that bears upon this subject in charges of this sort. You are all aware, that in the operation of a railroad, whether the business be light or heavy, there are certain fixed expenses that must be met, and that these expenses do not increase materially with the amount of the business: the organized force for the supervision of the track; the construction and repairs of bridges, which deteriorate more by time than by use; the insurance, and the fences; the taxes, gatemen, and flagmen; the administration expenses, — are not materially affected by the volume of business; and it is necessary, as an element of being able to do business cheap, to do it in large volume.

And so you must remember, that, because we are enabled by our through lines to secure and send ten carloads of flour from Willimantic to Boston on its way from Chicago at a low price, our local consumer is doubly benefited: first, by receiving his own carload of flour at a less price than our road could otherwise have delivered it to him; and, secondly, that the necessity for charging a high local tariff to meet these fixed expenses was diminished by reason of the net earnings on new through business.

PASSENGER BUSINESS.

In passenger business the same rule applies. I put it to either one of you, whether, if you had occasion to locate for business or for residence, you would select a road or a station which was served by numerous trains, enabling you to go, or your friends to come, at almost any hour, with through connections, so you could reach the great commercial centres; or whether you would immure yourself upon a road running but two or three local trains a day.

If the charge is made that we have erred in the other directions, that we have not furnished sufficient facilities, I beg you to turn to the reports for the present year, to be found in the Massachusetts Railroad Commissioners' Return, pp. 244 and 245, by which you will find that the average total passenger earnings per train mile, on the eight roads leading out of Boston, have been one dollar and forty-three cents; varying from one dollar and ninety-one cents on the Boston and Albany Road, the largest, to ninety-seven and one-half cents upon our road, which is the smallest.

The expenses per train mile of the same eight roads have averaged ninety-two and two-hundredths cents. Our expenses being ninety-four and eight-hundredths cents, you see that it is not that our expenses per train mile have been disproportionately large, but that our revenue per train mile has been too small.

Now a word as to passenger *rates*. It is difficult to analyze the comparative profits of different descriptions of passenger business, which may be divided into commutation, local, and strictly through business, although more or less done upon the same trains.

By reference to p. 250 of the Railroad Commissioners' Report, it will be seen that our average rate for season-ticket passengers is lower than that of any road running out of Boston, with but a single exception, — the Old Colony; and it is as low as we can afford to run the trains with the present amount of business.

The same page discloses the fact, that our average rate on local passengers is less than the average of the whole eight roads running out of Boston; while our average earnings from through passengers are more than ten per cent above the average of the same roads. In business to New Haven and beyond, we have in through business the advantage of twenty-three miles shorter distance, which, with through rates fixed by other lines, gives us a larger rate per mile than any other line; and this advantage is permanent.

These figures demonstrate, that, in passenger rates at least, we have not discriminated against our local traffic. If you ask us to

run more passenger trains, it will appear that the profit upon those we have already run is shown by the Commissioners as something less than three cents a train mile.

If it shall be said that this close result grows out of our trains run for business beyond our road, turn to page 234 of the same report, where you will find, that, of our total passenger mileage, substantially one-half is joint business with other roads, while the new through trains constitute but one-fifth of the passenger-train mileage. This, however, is but an indication, as the through trains do more or less local business, and the local trains do more or less business with connecting roads.

COMPARISON WITH OTHER ROADS.

Let us examine still further the question of expenses. You noticed, perhaps, that our cost per train mile is two and six-tenths cents above the average. Let us see what items constitute train mileage expenses.

On p. 248, the average cost of repairs of roads is stated to be ten cents a train mile: you will find upon the New-York and New-England road it is fifteen cents. This means a constant expenditure for improvement of the road-bed.

You will find that the average cost of repairs to bridges is one and three-quarters cents: on the New-York and New-England the expense is two and a quarter cents. This means constant improvement in bridges, including the cost of eleven new ones last year, all charged to operating expenses.

You will find that the average cost of new rails on the eight roads referred to is four and one-half cents per train mile; and you will find, on the New-York and New-England Road, the expense is nine and one-half cents per train mile for new rails. This means fourteen miles of new steel rails, and eight miles of new iron rails, charged to operating expenses for new rails.

Take, now, another class of expenditures which also goes in to make the train-mileage expenses. On repairs of locomotives you will find our expense to be substantially the average of the eight roads. In fuel you will find it to be twenty per cent less. In oil and waste you will find it about thirty per cent less.

So that, of those elements which go to make up train-mile expenses, you will find our disbursements for the improvements of the property average larger, while those which show a careful administration in the expenditure of material are smaller, than the average of the eight roads out of Boston.

The lesson of the whole is, that what we lack is business; that,

to attract business, we must afford facilities ; that facilities are at the foundation of local prosperity ; and that, in our endeavor to assist the prosperity of the community served by our property, we have afforded a passenger-train service at rates which have yielded but a trifle more than it has cost.

Up to this point we have dealt only with the road in the possession of the corporation, comprising one hundred and thirty-nine miles between Brookline and Woonsocket, Boston and Willimantic, and East Thompson and Southbridge.

HARTFORD, PROVIDENCE, AND FISHKILL ROAD.

We come now to consider that other portion of the road known as the Hartford, Providence, and Fishkill Railroad, which is completed from Providence in Rhode Island to Waterbury in Connecticut ; say, one hundred and twenty-two miles. This road is owned by the New-York and New-England Railroad Company, having been covered by the Berdell mortgage, but when bought by the Boston, Hartford, and Erie Railroad Company, in 1863, was in the possession of the trustees under its own mortgagees, who have jealously maintained the possession of it ever since.

It was one of the great mistakes of the management of the Boston, Hartford, and Erie, that, when they had at one time nearly four millions of dollars in the bank, they did not hasten to pay off this mortgage of two millions, and relieve the trustees from further responsibility in connection with that road. But the mistake was made ; and all efforts either to arrange for joint business upon satisfactory terms of lease or contract, that the roads might be operated for a common end, have, up to this time, been unsuccessful ; and the two continue to be operated by separate and entirely independent managements.

The cost of that road, when originally constructed, was between four and five millions of dollars, two millions of which was defrayed from the capital stock, two millions by the mortgage-debt, and the balance by a floating debt, which was long since paid by and assigned to the Boston, Hartford, and Erie Railroad Company.

Of the capital stock of that company we hold more than three-quarters ; and our threefold title to the road is made by a contract to operate it for nine hundred and ninety-nine years, a lease of it for the same period for a nominal consideration, and by an absolute deed of it to the Boston, Hartford, and Erie Railroad Company, through whose mortgage to Berdell and others the New-York and New-England Railroad Company derives its title to the whole of the property it possesses.

The object of these three instruments was to make an unquestionable title for all time. They were critically examined by a commission appointed by the Governor at the time the State made its original advance to the Boston, Hartford, and Erie; and they were pronounced by Ex-Chief Justice George Tyler Bigelow and Ex-Governor Emory Washburn to be beyond question. We may therefore safely dismiss any doubts as to our title.

As the Hartford, Providence, and Fishkill Road runs through a territory free from competition, its net results should be greater with the same gross earnings than those shown by this Company; and it is a matter of history, that, with a fixed annual charge of one hundred and forty-three thousand eight hundred and fifty-five dollars (being the interest at seven per cent on its mortgage-debt), it must have devoted its surplus revenue to purposes of its own; for the fixed annual interest charge was met as regularly and promptly by its Trustees when its gross earnings were only three hundred and fifty thousand dollars as they have been since its earnings have reached a million of dollars a year.

No reduction of the principal of its debt has ever been made by these Trustees, excepting as the result of an arrangement by which the Rhode-Island portion was leased to the management of the Connecticut portion, a year or two since, at a sum exceeding the interest upon the Rhode-Island debt; and to that extent we have been benefited. The mortgages in the two States are independent of each other, and amount to five hundred thousand dollars in Rhode Island, and fifteen hundred thousand dollars in Connecticut.

In House Document No. 325 of 1877, p. 8, the Railroad Commissioners say, in reference to this Hartford, Providence, and Fishkill Railroad, —

“Based upon its earnings, the property would now seem to be worth in the neighborhood of \$2,000,000 over and above its indebtedness. The road is operated independently of the New-York and New-England Railroad, and in connection with other and competing companies. As a contributing addition to the present road, its direct value as increasing the earning capacity of the latter would be very considerable.”

By reference to the report made by the Connecticut Trustees under oath to the Railroad Commissioners of Connecticut, it appears, that, for the year ending Sept. 30, 1877, the net earnings of the whole road were \$215,938.85. It is not likely that the amount available for any purposes would be diminished if the road were operated in connection with this property.

These figures are one year later than those alluded to in the report of the Joint Special Committee, House Document No. 2, of 1878.

We have now seen, that, upon the road operated by this company, the net earnings, after paying the rents of terminal property in Boston and all taxes, were, last year, \$184,383.37; that the net earnings of the Hartford, Providence, and Fishkill Road, for the same time, were \$215,938.85, — or together, \$400,322.22, — applicable to the payment of interest on any new loan; and this as the result of properties worked separately and competitively.

The Joint Special Committee, however (House Document No. 2, 1878), fell into a serious error by again deducting this rent (\$55,000) from the net earnings, as it had once been deducted to reduce the net earnings for the year to \$184,383.37.

WEST OF WATERBURY.

From Waterbury westward there exists an unfinished road-bed, miles and miles of which are ready for the rails. Upon its construction three and a quarter millions of dollars in actual cash has been expended by the contractor; and three hundred thousand dollars more has been paid by the Boston, Hartford, and Erie Railroad Company for land damages and real estate. So far from being a source of revenue to the property, the taxes and assessments upon it have been paid out of the earnings of the road operated by the New-York and New-England Railroad Company; and its value, whatever it may be, present or prospective, is included in our new mortgage.

What it is worth, or what it will ever be worth, depends entirely upon what course may be taken in regard to it. I leave the consideration of that branch of the subject to others.

Excuse me for having delayed you so long. I have given you the facts in regard to the property; and, if agreeable to you, I should like to submit them to you, so you may examine them, and compare them with the reports.

Mr. GILBERT. In print, Mr. Clark?

Mr. CLARK. Yes, sir, if you desire it.

Mr. GILBERT. There is every thing in arrangement.

Mr. CLARK. I have tried to show from one point to another exactly what the result of the operation of the road has been. Not one of the present directors or officers of the road is in any way responsible for the condition of the property when we took possession. We know it is a much better road, and capable of earning a very much larger amount of money, and that it is earn-

ing a much larger amount of money than it was when we took it. I have taken the situation of the road as it was then, and I have told you exactly what we have done with it. Now you may do what you will with your own.

Mr. WILDER. Be kind enough to explain just the condition of the Berdell bonds. I don't know whether you have. I was not in when you began.

Mr. CLARK. The Berdell bonds are so called because the mortgage was made to Berdell and others as Trustees. That mortgage, which was for twenty million dollars, provided that in case of a failure of the Company, and a consequent foreclosure, a new Company might be formed, having the same capital as the mortgage-debt; and this new Company is the New-York and New-England; that thereafter the Berdell bonds should cease to be a lien upon the property, and should simply entitle the holders to ten shares of stock in the new Company, in exchange for each bond of one thousand dollars.

I did not go into that this morning, as it antedated possession by the creditors. At the time the State aid was invoked in 1869 and 1870, protracted hearings were had. The Berdell mortgage was a lien on the property for twenty millions of dollars. That debt, or rather the securities representing that debt, are now the stock of the road. Any new money put into the road at that time would have been subordinate to that mortgage, and could have been secured only by a second mortgage; but, if any money is put into the road now, the security will be good if the stock, or the Berdell bonds, which now simply represent the right to have stock, is worth a single cent. It makes a difference of more than twenty millions of dollars in the security that can be offered by this property to any one putting money into it.

I have very decided views as to what the policy of the owners of the property should be; and I think I shall be justified by the result, if the experiment be made. I do not believe that the property will start off full armored and full fledged, and pay the interest on forty millions of dollars, as men, who are supposed to be sane, predicted in the hearing in 1870. I do not share their enthusiasm to that extent. But I am just as sure, that, to get any return to the stockholders for the money they have already put in, a further expenditure should be made; upon the principle that a block of buildings has been erected, and should now be roofed in. And I am also sure that the net income of the road, if finished, will make the present stock a dividend-paying security. If you ask me whether it will pay four or five, or six or seven, or ten per cent,

nobody can tell; and I will not shake my head and appear wise, and state that it will pay six, or six and a half, or seven per cent.

The CHAIRMAN. You mean finished from Waterbury west?

Mr. CLARK. Yes, sir. The first great problem is to take these halves of the road (the Hartford, Providence, and Fishkill, and our own), and set them to work earning money together, and working harmoniously, and for one common end: the second is to finish the road west of Waterbury.

Mr. CHAPIN. To do that, I understand it is necessary to take up the mortgage on the Hartford, Providence, and Fishkill?

Mr. CLARK. Yes, sir. That is more than half of the debt of the Company, — the debt on the Hartford, Providence, and Fishkill Road.

Mr. CHAPIN. The State would then have a bottom mortgage?

Mr. CLARK. Yes, sir: any mortgage would be a bottom mortgage as to the State's interest, or the interest of any other stockholder.

Mr. CHAPIN. Has your company made any recommendation?

Mr. CLARK. That is rather a question for the President than for me.

STATEMENT OF THE PRESIDENT.

Mr. HART. That is set forth in the proposition made by the Directors of this Company to the Special Committee which sat during the recess last summer. It may be found printed in their report, which is the subject we are now considering. I suppose the matter before the Committee is to consider what the State will do with its interest in this road; and that is the whole of it. In order to make up their minds upon that point, we come here to tell you the condition of the property, and its capacity for earning money.

You have the Report made by the Railroad Commissioners to the last Legislature; and that embodies probably all the information that it is possible for us to give, or for you to obtain, were a dozen more committees to sit upon it. They have given you the results of their judgments upon it. It seems to me to be a question, whether you have confidence in those statements; and, if so, you will be satisfied that it presents ample security for the loan asked for by us in our proposition. You are considering whether the proposition submitted is one that it would be for your interest to adopt. You are the Railroad Company, and you control the railroad as it stands to-day. You control it; for the vote thrown by the State of Massachusetts upon its stock controls the election of the Directors of the Company.

Now, the statement which has been made by the General Manager, as it seems to me, is quite exhaustive and clear.

THE COMPANY'S PROPOSITION.

What would be the result, provided the proposition which we have made to the Committee (and from that Committee we renew it to you), — provided what we undertake to do there is carried out? It will save the State any further loss in consequence of its loan to the old Company by our paying the interest as it becomes due, semi-annually.

By referring to the State Treasurer's Report of this year and last year, you will see that his Report of last year states the sinking-fund to be \$963,800. This year he states it to be \$1,027,000. Somewhere between \$60,000 and \$70,000 has been added to the sinking-fund during the past year. It is twenty-two years before the principal of that debt becomes due. It is over a million dollars to-day: it will double in eleven years, which will make it two millions; and in the balance of the term it will grow to four millions. So I say the principal of that debt is provided for amply, as we presume.

SIX MILLIONS IN TAXES SAVED THE STATE.

Now, there is nothing that bears heavily upon the State except the interest on the money it loaned to the Boston, Hartford, and Erie Railroad Company; and we assume to pay that interest, if our proposition is accepted. The result to the State will be the saving of \$8,000,000 and upwards, at six per cent interest. I have had the calculations made; and it appears that if we should assume on the 1st of July next the payment which the State will otherwise have to make, of \$90,000, and so continue making the payments on the succeeding 1st of July and 1st of January until the year 1900, the State will save the amount of \$8,011,172, if the calculations are made at six per cent. If the proposition of the Railroad Company is not accepted, that is the amount which will have to be raised by the State from the taxation of its citizens.

Or reckoning interest only at four per cent per annum, with the same semi-annual payments, the amount which the State would save by accepting the proposition would be \$6,242,000, — a larger sum than the entire loan asked for by the Company. They are large figures.

Q. Your proposition is, if this loan is made, and if its provisions are carried out?

Mr. HART. Certainly.

Q. It will save the State that expense?

Mr. HART. Yes, sir. Now, what is the ability of the road to carry out such a proposition? The Corporation will save money, even paying you the amount stated; as you will see, if you think of it a moment. Suppose we sell seven millions of bonds at ninety cents: it would bring us six millions three hundred thousand dollars. If we have six millions of the State of Massachusetts five-per-cent bonds, it would bring us an equal amount of money, and probably more. Now, suppose ninety per cent to be the price at which we sell our seven-per-cent bonds. The interest upon that seven millions at seven per cent would be \$490,000 per annum that we should have to pay. Five per cent on the \$6,000,000 we now ask of the State, or \$300,000, which is what this money will cost the State per annum, and five per cent on the \$3,600,000 of stock which the State owns, or \$180,000 per annum, makes in all \$480,000; which is what the Company will have to pay if its proposition is accepted. So you see the undertaking is not a burdensome one. It is a reasonable one, as it seems to me, for us to make.

As our General Manager has stated, there were men, and very sensible men too, — men whose judgments were taken on State Street as readily as anybody's, as being sound, — who thought this property would pay six per cent interest on \$40,000,000.

Q. That means, provided it was finished?

Mr. HART. Yes, sir. Now, I do not share in that view, and did not then, although I had nothing to do with the road at that time. But I do believe it is perfect security for one-fifth of that. I refer to this amount of six millions in consequence of the testimony of one of the gentlemen at the last hearing. You remember one gentleman testified that he was strongly in favor of the State loaning four millions of dollars, so as to relieve the property from its mortgage-debt. He admitted that it was his own proposition in the Committee. One other gentleman in the Committee thought that was not a matter to be considered, inasmuch as the Corporation had never asked for that. The Corporation have made but one proposition, and that was for six millions of dollars.

I feel, and all of the management feel, that it is for the interests of the State, if it is to do any thing, that it should do the whole. But it is quite possible, that, upon terms that might be agreed upon, it would be expedient to take a smaller sum; but the very great importance of getting possession of the whole of this road, and making productive the large expenditure which has

already been made upon the unfinished part at the relatively small amount which is necessary to complete it, is apparent.

COST OF COMPLETING THE ROAD.

Two millions of dollars is the estimate which has been stated for completing the road to the Hudson River. The exact figures, as made up by the engineers from actual measurements and surveys, are one million five hundred and forty-nine thousand dollars. I think, as there has been a considerable reduction in the rate of wages and the price of materials, &c., since the estimate was made, very likely it could be done for less; but as I never want to be disappointed, and have an enterprise of this sort cost more than is estimated, we set it down at two millions. The interest of that two millions of dollars at five per cent is one hundred thousand dollars. Is it not reasonable to suppose, that with that portion of the road completed, making the road a through line to the West, the increased income would prove the expenditure to complete it a judicious one?

The CHAIRMAN. If it will not be an interruption, right there, can you enlarge some on what would be done upon it, its new resources?

Mr. HART. I will leave that to the gentlemen who are here. They are citizens of New York, and Directors in our Company,—gentlemen who, from the first, had very great confidence in this enterprise. One of them has been for many years a Director in the Delaware and Hudson Canal Company; and he can inform the Committee in relation to the business which will come from the other side of the river.

The CHAIRMAN. That will be satisfactory, of course.

ADVANTAGES OVER BOSTON AND ALBANY RAILROAD.

Mr. HART. Before I ask Col. Cannon to address the Committee, I want to refer to another fact. I have a statement here in regard to the Boston and Albany Road, which is an exceptionally successful corporation, beginning at Boston, and running out through the towns and cities and villages on the line of the Boston and Albany and the New-York and New-England, as taken from the census; and it shows that there is a larger population and a larger valuation on the line of our road than upon the line of the Boston and Albany. So much for the local interests which contribute to the maintenance of a railroad.

The CHAIRMAN. On the entire line?

Mr. HART. The entire line. We give the Boston and Albany

the benefit of the population of Albany, regarding the city of Albany as the terminus of the Boston and Albany at the western end; and we take to ourselves Newburg, which is on the west bank of the Hudson, opposite Fishkill. Of course, that is a disadvantage to us. How many inhabitants has Albany, Col. Cannon?

Col. CANNON. I think, about eighty-five thousand.

Mr. HART. And Newburg about seventeen thousand?

Mr. ROOSEVELT. About fourteen thousand.

Mr. HART. By this statement, which is at your service, you will see that we might expect locally as good business as the Boston and Albany.

Now, we want what the Boston and Albany has, and which no other road running into Boston has to an equal extent; and that is, through connections, through business.

The whole question that will present itself to the minds of the Legislature, as it seems to me, comes to this: What is the ability of this Corporation, which is ready to undertake this thing, to perform it? That is all there is to this question; because it is a good trade to the State, if the Corporation are able to carry it out.

Now, by the Report of the Boston and Albany Railroad Company in 1876 (I have not seen the Report of last year to see how it corresponds), it appears that they paid nine per cent on twenty millions of stock, and six or seven per cent on seven millions of bonds, — about two millions and a quarter.

Now, if the Boston and Albany, with less local population and less valuation, can pay two millions and a quarter net out of its earnings, is it not reasonable to suppose that the New-York and New-England Railroad Company, with through connections and one hundred miles more of road, could pay \$480,000 a year? — particularly as it now pays more than four hundred thousand net without connections.

Gentlemen of the Committee, I would like to introduce to you Col. Cannon of our Board of Directors, and a citizen of New York, who many years ago began to buy Berdell bonds at fifty and sixty, having, as he believed, a pretty sure knowledge of the prospective value of this property. He can give you all the information I think that is required in regard to the coal traffic particularly, having been for a long time a Director of the Delaware and Hudson Canal Company.

Another thing should be bore in mind by the Committee; that is, we run through a manufacturing population where the consumption of coal is very great. The usual computation in regard to affording business for a railroad is, I believe, that a population of

one thousand persons will consume a thousand tons of coal a year, and will afford that amount of business to any road which supplies them. Where there is a manufacturing community, of course the consumption is very much greater.

Mr. HART. What is the population of Troy?

Col. CANNON. The two Troys, about seventy thousand.

Mr. HART. What is the consumption of coal in that city?

Col. CANNON. Between four hundred and five hundred thousand tons.

Mr. HART. Affording a great business for the railroad.

Mr. TUCKER (of the Committee). On the matter of competition with water, something was said at the last meeting, that, in Connecticut and Rhode Island, your road would be obliged to compete for business with the water transportation, and that you could not do it to advantage. As I understood it, the Erie Railway was running to Jersey City, and they took freight coming from the West to that point; and steamers bring it round into Rhode Island and Connecticut, as well as to Boston, on such terms, that you will not be able to compete with them. If you or any of the other gentlemen have any information to give on that point, I should be very glad to hear it.

Mr. HART. Col. Cannon will do that.

STATEMENT OF LE GRAND B. CANNON.

Col. L. G. B. CANNON. Mr. Chairman and Gentlemen of the Committee, I may state that this is the first time in my life that I ever appeared before a Legislative Committee for the purpose of either advocating or opposing any project.

I do not know that I can add in any measure to the very clear and full history that has been given by the General Manager of this Company in regard to its affairs. Perhaps it may be proper to state that my association with this Corporation was not only accidental in part, but originally a very unwilling one. We felt in New York, as you felt very much here in Massachusetts, that this was a Boston, Hartford, and Erie Corporation, and was a great leprous body; and therefore it was with great reluctance that men who felt they had any position in the community were disposed in any way to be connected with it. It was only by the continued persistence—I might say, as has been said by one of your New-England orators, by a sort of demoniac energy—of the President of this Company that I was forced into it.

When we came here for the first time to look at this property,

before assenting to our election as Directors (for we reserved the right to examine the property, and then determine), we went over it, and found it in so much better condition than we had supposed any property managed by Receivers and by Trustees would be in, that we made up our minds, after coming over here and consulting together, that there must be a cat in the meal, and we could not see it. We asked, Why is it that this property remains in this condition? This is before your eyes in the city of Boston, and State of Massachusetts; and the State has a very large interest in it, shown by having originally loaned so large a sum of money; and we in New York have no other interest, except as stockholders.

I don't know, after the brief introduction which has been given me to your body that I have been the purchaser of these bonds at forty and fifty, that you will have any sort of confidence in my judgment: nevertheless, I have a lot of them.

I think it may be fairly stated, that from the time the Corporation failed, and the road passed into the hands of Receivers, then into the hands of Trustees, and finally into the new Corporation, with all manner of discouragements, without any sort of credit, with the avoidance of it by everybody and every thing, with a general depression of business through the country, by which every interest has suffered, it stands a singular instance, having established a good credit, and that too, I may say, without any foreign aid. Now, we gentlemen in the direction have had nothing to do with the details of this management. Whatever credit of management or of administration there is connected with it is solely due to the General Manager and to the President. They have worked this thing with extraordinary ability all the way through; and have brought it up into such good credit abroad, that it has rather surprised us.

THE FINANCIAL QUESTION.

We appear here substantially as the servants of the State of Massachusetts. They really represent this Corporation to-day; for, with a small exception, they are the only ones who have converted their bonds into stock. As I understand the proposition made by the Board, it comes before your Committee strictly as a financial question. You have an interest here of three, nearly four millions of dollars, in stock of this Corporation, which may be said to be almost worthless as it stands to-day. It has a nominal market value of ten or twelve cents. Now, then, the proposition of your servants, of this Board of Directors, is to make yours practically a

preferred debt ; and they show you what they have done with this incomplete road, and what they believe they can do in reference to meeting this proposition.

Now, this road, during the last year, as the Railroad Company's accounts are kept and accepted by the Railroad Commissioners and legislative bodies, who prescribe the manner in which they shall keep their accounts, — this portion of the road, this one hundred and thirty-nine miles of railroad, shows a credit to profit and loss of one hundred and eighty-four thousand dollars ; and the Hartford, Providence, and Fishkill Road, something over two hundred thousand dollars ; and the Committee who have examined it are entirely persuaded — I believe they yielded, at all events, a reluctant assent — that we are perfectly able to meet the interest upon a four-million loan, and that, too, with the road under two different administrations. And there is a large amount of money expended upon the portion of the road between the Hudson River and Waterbury, yielding no income, but a drain upon the present business of the Company.

WHY THE OTHER STOCKHOLDERS SHOULD ASSENT.

Now, the question may naturally be asked by you, gentlemen, Why should we, why should I, representing many of these bonds, — for it must be presumed I have an object, — why should I consent that the stock held by the State, precisely the same as that I hold, — why should I be willing that it should have a preference over mine ? For the simple reason that I believe, if we can thus raise the money to complete this road, we can well afford to pay it. Mr. Hart has shown, so far as the interest account is concerned, that we are absolute gainers, that the outside bondholders are absolute gainers, by paying you, and making this preferred debt, rather than go into the market and issue our bonds, and sell them at a heavy discount. Therefore we can afford to do it. We can afford to make yours a preferred stock, and take our chances with the balance, knowing that our money will be forthcoming.

COAL BUSINESS OF THE ROAD.

Now, in the origin of this road, the very object of the State of Massachusetts in granting its credit was to get a cheap avenue to the West ; or an avenue to the West that would furnish cheap transportation, especially for coal. Now, before I had any interest in this road whatever, while it was in some way or other associated with the Erie, the Delaware and Hudson Company, having a large interest in the coal business, went into a calculation to ascertain

what amount of coal would be consumed on this line, independent of the city of Boston. We don't presume to bring coal by this line to the city of Boston; that is impossible: but we can approach very near to it by rail. We found some four or five years ago that there would be consumed on this line of road not less than seven hundred thousand tons of coal a year: for it is fair to assume, as it proves true, that the population through a country which is supplied with anthracite coal consume about a ton a year *per capita* of the population on the line; that is, for domestic use merely. The rule that we apply to the consumption of coal applies also to the consumption of flour. We had agencies, sending our coal to the city of Boston and Providence, and through those cities to all the points reached by this line, taking the very lowest rates of freight.

To give you an illustration: Assume that coal can be carried from tidal points on the Hudson to Providence by water for a sum not exceeding seventy cents a ton, which you will readily see is extremely low price, but taking the lowest possible price, the question is asked, How can we compete with them? Take the Pennsylvania Coal Company, whose terminal point on the Hudson is directly opposite where this road touches the river, to say nothing of the Delaware and Hudson Canal Company, just north of them, who can discharge a ton of coal at Fishkill almost as cheaply and as well as at Rondout, which is the terminal point of its canal on the Hudson, it costing but three or four cents a ton more to discharge it at Fishkill than at Rondout, which is the nearest point to which coal can be brought by water from the mines, and where shoots are in full working condition to the extent of a million and a half tons a year. We wanted an estimate in regard to the matter; and taking the lowest rate for water transportation to the city of Providence, which we will assume to be seventy cents a ton, then assuming the cost of transfer, and waste of transfer, to be about ten or twelve cents, and then the short haul of fifteen or twenty miles, which is always an expensive haul, not less than two or three cents a ton a mile, and we found that we could, at three-quarters of a cent a mile, bring coal, and lay it down, say, at Baltic, and then compete with the coal brought round by water, with the charges of transfer. We found that we could supply the coal all the way up to within a very short distance of the city of Hartford (though we could not supply Hartford itself, it being on the river) at an average cost of two cents a ton a mile; and there was no other line that could compete with us.

In other words, aggregating the whole of this, we assume that

the revenue of this road, if it were completed through to a connection with the coal lines, would not be less than \$1,250,000 a year over that portion of the line.

ADVANTAGES OF RAIL OVER WATER BORNE COAL.

It is difficult to say how low a railway company can carry coal. It can certainly carry coal cheaper than any other freight, and for these reasons: It comes in whole train-loads; therefore you get great volume. It is a freight that loads and unloads itself: it is done by gravity. Besides that, it is the easiest freight for the road-bed known, because it is elastic; and every consumer prefers to take coal that is brought by rail, rather than that by water, because it is cleaner: the slight motion it gets on the way makes the coal very clean. And another thing: fresh-mined coal is very much more valuable than that exposed to the weather. The effect of the weather on anthracite coal is, that it takes up a large amount of oxygen; and, when it comes to be used as fuel, it slacks, and has too much flame, — so much so, that for manufacturing purposes, with a market-value of \$4.50 a ton, we pay for iron making \$5 — say fifty cents more a ton — for coal brought by rail, rather than receive it by water after it has been piled or stocked. It is found to be absolute economy to pay so much more for coal that comes by rail: it will produce so much more iron.

MASSACHUSETTS TRUE TO HER TRADITIONS.

I do not believe that it would be true to the traditions of Massachusetts to be satisfied with any thing that was purely local. She has been reaching out and reaching out, and successfully, to the remotest parts of the country, to get business. What she is contending for now, and has been contending for, is cheap transportation to the West. I think any thing which would narrow her down to what would be local would change the character of New-England people. We in New York think that every thing East is wonderfully aggressive; and we cannot but admire it, for the reason, that wherever Massachusetts or the East goes, and finds a good pair of shoes, she gets into them, and is very apt to stay.

I don't believe for one moment that this Company, or that the managers of this line, would be justified, except they were continually reaching out to get new business. And not only that, but we ought to try experiments always, — new avenues, new lines in new directions, — even if we anticipate, that, in the beginning, it has got to be done at a loss. I don't think any man ever starts in life without being obliged to make a considerable expenditure of

money in the first instance to get his business well established ; and then he begins to get a profit from it.

I don't know that I have any thing further to say but to thank you for your kind attention.

Mr. TUCKER. I understood you to say you could not compete at Hartford with the water. Now take a point twenty-five miles east of Hartford on this road. Could you not get coal there more cheaply by bringing it to Hartford by water, and then by rail, than to bring it all the way by rail direct? Which would be the cheaper?

Mr. CANNON. By bringing it direct, sir. That is the very point. By bringing coal to Hartford by water, the cost of reshipment would be ten to fifteen cents a ton ; and a certain waste is always connected with transshipment. Then they would have a short haul over the railroad, for which they would have to pay a high rate ; for the simple reason, that if an engine starts from Boston to go through to the Hudson River, perhaps burdened with a train of twenty-five cars, it goes right along to its destination. Another train starts with three, four, or five cars. The difference in the cost of transporting the two trains is not appreciable. Whether the engine has attached to it cars to the extent of its capacity, or three or four cars, the expense of doing the business is substantially the same. So the absolute cost of carrying a train a hundred and fifty miles, when she starts to run through with it, would be very little decreased in consequence of dropping those cars along at several points.

Mr. TUCKER. I see that might apply to points west of Hartford. Your position is, that, after you get the coal on a car ready to start, it would be cheaper to bring it all the way through by rail, than to bring it part way by water, and then ship it again?

Col. CANNON. Yes, sir.

Mr. TUCKER. That would apply to the city of Providence as well?

Col. CANNON. To answer that more fully, the Agent of the Delaware and Hudson Canal Company at Providence is one of the largest dealers there. Some three or four years ago I had an interview with him, and asked him all these questions, what the cost of reshipment and the waste would be likely to be. We shipped to him about two hundred thousand tons a year, and wanted to know what the comparative cost would be ; and we found that where these Baltic Mills are, half way between Hartford and Providence, we could afford to bring the coal by rail all the way. Not that we would make any special profit on it, but that it would

be an object to do it, as it would strengthen our trains all the way through.

Mr. TUCKER. That is, in regard to the transportation of coal? How would it be with other freight from the West?

CONTRACTS WITH ERIE AND PENNSYLVANIA RAILROAD COMPANIES.

Col. CANNON. I can only say this, that the Pennsylvania Railroad Company are very desirous of getting connection with some direct route to the East; and they have made a proposition to us, if we will build this road through. The Erie also have said, that, if we would complete this road, they would bring us their business, and connect directly with us. Furthermore, they have made a proposition that they would give this Corporation, as a bonus, ten per cent over the *pro rata* on all the business of the line, and they would enter into a contract for ten or fifteen years. They would not only give us *pro rata*, but they would give us a bonus. This road, if completed, can readily be reached by the Erie, the Pennsylvania Central, and the Delaware and Hudson Canal Company; and, for that reason, the managers of this Corporation have not declared where will be their terminal point. Our surveys make it fifteen miles to Fishkill, about fifteen miles to Poughkeepsie, and about fifteen miles to Fort Montgomery. One of those three places will be the point for this road to cross the Hudson; but we have never encouraged anybody by declaring where we were going.

Mr. GILBERT. If the Boston and Albany, which is so well and thoroughly equipped, and has good facilities at the Hudson for bringing coal, cannot supply the city of Springfield and the city of Worcester with their coal, how can you expect that your road, completed to the Hudson, would supply your line of road east of Hartford?

Col. CANNON. They do: the city of Springfield is entirely supplied with coal —

Mr. GILBERT. Not by the Boston and Albany Road.

Col. CANNON. Then it is because the Boston and Albany does not compete with the lines from the Sound.

Mr. GILBERT. A large portion of the coal that comes to Springfield comes by water to New Haven, and then by rail to Springfield.

Mr. CANNON. You can very readily see that the distance is much less: it is about one hundred miles from Hudson, and about sixty from New Haven.

Mr. CLARK. The reason may be one of policy that intervenes to change the natural course of trade. The relations of the Bos-

ton and Albany, and the New-York, New-Haven, and Hartford Railroad Companies, so far as the business between Boston and New York is concerned, are rather complex; for the Boston and Albany seeks the Western business, and seeks to do it by its longest haul. It also desires to attract and maintain a large business between Boston and New York; but it is dependent entirely upon the New-York, New-Haven, and Hartford Road to get its outlet into New York, and to reciprocate and receive return business. But the New-York, New-Haven, and Hartford Road is not at all dependent on the Boston and Albany Railroad for connection with the city of Boston, having the Shore Line and the Line of which we form a part, either of which is ready to take what business is offered, and to give what business we can.

Now, the Boston and Albany Road has supplied coal in the city of Springfield; and could supply the city of Springfield at a profit, if it were not for a matter of policy. Competition between the two companies for the business would arise at once; and perhaps it is not policy for the Boston and Albany to make rates so that the coal should not come from the Sound up the river to Springfield.

MR. GILBERT. How about the city of Worcester?

COMPETITION WITH BOSTON AND ALBANY.

MR. CLARK. In the city of Worcester, the Boston and Albany is our worst competitor. We operate the Norwich and Worcester road, and the Providence and Worcester and the Boston and Albany Roads are our competitors; and the Boston and Albany is the worst competitor we have at Worcester, and it takes the coal from both ends of its road. It takes coal from Boston to Worcester, and from Hudson on the Hudson River to Worcester, both in competition with our line to the Sound, and with the Providence and Worcester Road to Providence.

MR. GILBERT. Does your line furnish a portion of the coal at Worcester?

MR. CLARK. Yes, sir.

MR. GILBERT. Does not that show that you cannot bring coal by rail any farther east than Worcester when you can compete there by coal from the Sound with the Boston and Albany Road, which has every facility?

MR. CLARK. No sir: it does not settle that question. As the coal business is practically managed, parties who make establishments on the line of a road have their coal-yards so situated, that they become, in fact, the customers of that road; and each road

has a business of its own, which sometimes it may be forced to keep by a reduction on the one side, or a reduction on the other side, growing out of the rates established or policy followed by either one of two competing corporations. The Boston and Albany Road has repeatedly taken away customers of the Norwich and Worcester Road, which we were forced to give up to them rather than to do the business at a rate which we did not feel we could afford to do it at; hauling it sixty miles, and handling the coal at Norwich.

MR. ROOSEVELT. Is there any coal that comes to New England direct from the mines over any railroad?

MR. CLARK. Not a carload, that I know of. In the northwest part of Vermont there may be: I am not familiar with that.

There is one element I would like to add to that, — that, with an all-rail line direct from the mines, we would find use for an average amount of rolling-stock all the year round. As the business is now done by part water and part rail, however, it varies greatly in volume at different seasons; and consumers are subjected to charges of demurrage. At times we have more business than can be transacted with the equipment at our command, and at other times the equipment has to lie idle. If we had an average daily amount to be carried from the mines to the consumer, there would also be saving in interest to the consumer, who has hitherto been obliged to store up his coal at certain seasons of the year; and the Railroad Company would be able to use its rolling-stock every day in the year. This is in addition to the element, alluded to by Col. Cannon, of fresh-mined coal, and the cost of handling.

NO TRANSHIPMENT OF WESTERN FREIGHT.

MR. HART. I am very glad, Mr. Chairman, that that point has been elaborated. I think it has now been made clear. It is a very important point. There is no coal that comes into this part of New England that is not transported partly by water. By our road, when completed, if you will examine the testimony of those gentlemen who testified heretofore very much in detail with regard to the income to be derived from this business and its magnitude, you will find that great stress is laid upon this fact, — that the coal put into the cars at the mines is dumped into the yard of the dealer; and this will be the only road that furnishes it directly from the coal-fields. No matter whether it is done by a bridge, in case the Poughkeepsie Bridge is completed, or by transfer by ferry, we have demonstrated that a transfer ferry is a very cheap and expeditious mode of moving freight.

Mr. WILDER. I had not understood before, Mr. Hart, — perhaps everybody else had, — that the cars would be transported across the river. I had supposed that there would be a transshipment, and that the coal would have to be handled.

Mr. HART. No, sir: that is the important point; an important characteristic of this road in reference to this coal-trade. It was stated by one of the gentlemen who testified at the last hearing with regard to this road, that it was subject to competition by water. He said that every village on the line of the road, from Waterbury to Fishkill, is now supplied with water or railroad facilities; and, so far as additional facilities were concerned, they would be better off without than with the proposed road. Now, this road is not subject to that competition. Col. Cannon's boats that come to Rondout go down the Hudson River, and round to Norwalk; and there the coal is loaded into cars.

Col. CANNON. I beg your pardon. The boats we start from the mine go no farther than New-York City: they are canal-boats. Those boats discharge at any point on the Hudson River; but they cannot pass around New-York City to be towed east. When coal goes east of New York, the canal-boats are unloaded into other barges if destined to points on Long-Island Sound. All coal that comes to Boston by water has to be reshipped into sailing-vessels or steamers.

Mr. HART. The boats that go up into the mines from Rondout do not come round New York into the Sound; but the coal is put into barges at Rondout, and brought east by water. The same remarks apply also to through freight, which goes up to these local points, — Danbury, Waterbury, and other points.

The CHAIRMAN. Then New England has no experience in coal being brought direct from the mine without reshipment, and the disadvantage of the fares charged for short haul?

Mr. CANNON. There has been one exception, and I will state it. Five or six years ago there was a winter of great discouragement in New England, and there was a short supply of coal. That winter we shipped coal direct from the mines by way of Binghamton and Albany away round here. It was brought to Springfield, and I don't know but some of it came nearly to Boston. That was an exceptional year, a very severe winter, and there was a short supply of coal laid in. I think, that winter, coal was eight or nine dollars a ton, or ten dollars.

The CHAIRMAN. That was a circuitous route.

Col. CANNON. It came round by Binghamton and Albany; whereas we had lying at Rondout at that very time 100,000 tons of coal that we had no avenue to get out, being ice-bound.

MR. GILBERT. I recollect that circumstance very well. I received coal direct from the mines at points east of Springfield.

SINKING-FUND OR INTEREST ON OLD DEBT.

THE CHAIRMAN. That was receiving it very indirectly. One of the objections raised at the last hearing by one of the members of the Commission was, that, whatever sum the State should advance, one-half of it, according to its policy, would have to go into a sinking-fund to provide for the payment of the debt, and so it would leave only a moiety to develop the road. What answer would you make to that? — that, if four millions were loaned, two millions would go into a sinking-fund?

MR. GILBERT. There is no such statement as that.

THE CHAIRMAN. I understood Mr. Stone to say that such a sum would be required. Am I right in the way I understood the gentleman on the Commission?

MR. HART. I think you are as to the establishment of a sinking-fund.

MR. CLARK. As to the establishment of the sinking-fund, but not as to its taking half of the advance.

MR. HART. I think this was on the gentleman's mind. The State has usually, I think, established a sinking-fund looking to the payment of the debt when due. The objection of the gentleman was, that it was establishing a bad precedent not to have a sinking-fund; and in one sense he was right. But we could not afford, as you will see, to assume to pay the interest that you pay on the three million six hundred thousand dollars, and also put one hundred and eighty thousand dollars, or any part of it, every year into a sinking-fund.

THE CHAIRMAN. He assumed that the loan to the road would be four millions. Do you recollect the amount that he stated should be devoted to a sinking-fund?

MR. CLARK. I think I can refresh your recollection. He took it for granted that no loan would be made without the establishment of a sinking-fund. Another member of the Joint Special Committee did not think a sinking-fund amounted to much. It was simply a subtraction from the original amount issued, kept back by the State in order to pay the principal.

The case here is equally well met, and will suit the Corporation just as well in one case as in the other. If the State should take the ninety thousand dollars, which we propose to pay you every six months, for a sinking-fund, and put it at interest, at four per cent per annum only, it will make, as you see by the figures presented by Mr. Hart, over six millions of dollars.

The gentleman said something should be set apart for a sinking-fund: he did not fix any amount. You see what the amount should be by the computation of Mr. Hart. If the amount of ninety thousand dollars should be paid semi-annually, it would make, with interest, more than six millions of dollars by the time the debt became due. You can do as you please, — either put it into a sinking-fund, or use it to pay your interest as it accrues. Of course the Company would prefer to have it in a sinking-fund, as it would thus be paying the Company's debt; but, if put in a sinking-fund, the State would have to continue paying the interest on its original investment.

LOAN PAID IN 1900.

MR. TUCKER. Then you expect, at the end of the time for which the loan is made by the State of either four or six millions, you assuming the interest which the State is now paying upon their other debt, and at the end of the time when this new loan becomes due, there would be four or six millions due from the road to the State: would there not?

MR. CLARK. We should be obliged to pay our own debt when it became due, and pay the one hundred and eighty thousand dollars a year in addition. Paying eight per cent interest has nothing to do with the payment of the principal. The security will certainly be better when the debt becomes due than it is to-day; for the road will then have demonstrated its earning capacity.

MR. TUCKER. You think there would be no difficulty in negotiating a new loan?

MR. CLARK. Not the slightest.

Q. What interest do the underlying mortgages bear?

MR. CLARK. The Hartford, Providence, and Fishkill bears seven per cent; some of the others, six. There are only about four hundred thousand dollars of principal outstanding other than the Fishkill.

MR. CANNON. As a bondholder, I had very much rather the State would make this a sinking-fund, the one hundred and eighty thousand dollars a year which the Company is to pay, than have the State's stock a preferred stock. I think you will see that our interests in that respect are very clear. As a guaranty for the old matter, if we can pay that one hundred and eighty thousand dollars a year, I don't know that you will want any sinking fund for the balance of the debt; for we shall have shown our ability to pay it: but, if the Legislature would prefer to put our payment in a sinking-fund, we are perfectly willing.

Mr. TUCKER. You have been obliged to use the income of the present road to supply additional facilities; and, although you have a nominal surplus of one hundred and eighty-four thousand dollars, you have no real surplus. Is it fair to use that sum to calculate upon as money that can be used hereafter to pay the interest money? How is that?

Mr. CLARK. I think, Mr. Chairman, that question was in a large part answered by the remarks I made in opening. The work that has been done is very much more in amount and extent than the work that remains to be done, keeping the road as a single-track road. If the requirements of the business require the expenditure of a larger amount of money for a double track, that business will yield its own income, which will make it possible for the Company to make the necessary improvements and extensions. If the business is not sufficiently profitable, if it does not do business enough to justify any further expenditures in that direction, then a single-track road can be maintained in its present condition. Since it passed into the hands of the creditors, every rail and almost every tie in the road has been renewed; and this is the point which is most difficult to bring to the minds of the gentlemen trying to form a correct judgment on a matter of this sort. It is a thing that cannot be demonstrated; but, if you could have gone over the road with me on the first trip that the Receivers made after they came into possession of the property in 1870, it would have made such an impression upon you, that you could not have forgotten it to this day.

The road is in as good order as roads will average. I do not claim that it is a perfect road, but that it is a first-class single-track road.

MONEY FOR FUTURE WANTS.

Col. CANNON. It is proposed that the road should be taxed in a way of interest and on this proposed debt to the extent of \$480,000, and that the Commonwealth receive a first mortgage of six millions of dollars. That is all the encumbrance upon the property: that is a first mortgage. There cannot be a doubt, I think, in anybody's mind, that if we can get money enough to build this road through to the Hudson River, and discharge all its obligations, — both of which things the six millions will do, — that we shall have good credit enough by a second mortgage to get any amount of rolling-stock we may want, entirely independent of our earnings: not the slightest. I should be very glad to take some second-mortgage bonds if this road is completed. They can get all the money they want.

Let us see what there is upon the road. Three hundred and forty-five miles of road, with six millions of debt on it. Only about seventeen thousand dollars a mile on a completed road.

Therefore I feel very certain, and I think any one who examines this matter will be, that this road completed through would be a great avenue to bring coal to all points that are not directly on the water. Our Company does not assume to compete with water, wherever the navigation is open the year round; but, where the navigation is interrupted a portion of the year, we have a coal business.

I speak of this as evidence to my own mind, and I hope it may be clear to you, that the proposition of this Company, as made to your Committee, is one that it can well perform and carry out. It is a good bargain, both for the Corporation and the State. It is certainly an excellent one for the State, provided the interest upon this loan will be met; for it will be an absolute saving to the State of four millions of dollars. Personally, I confess I have been repeatedly embarrassed: I have felt in New York that I really had no business to remain in this Corporation, where the State of Massachusetts had so large an interest, and seemed to be insensible to the protection of that interest, because we had no right to be viewed in this matter as any thing more than speculators. We held this stock because we expected to make money out of it.

LESS DEBT AND LESS CAPITAL THAN ANY OTHER NEW-ENGLAND ROAD.

With this road completed, provided we get this loan, it will certainly exhibit a length of railway line, with less debt and less capital, than any thing to be found in this country, or certainly in the New-England States; for I am not prepared to assume that these Berdell bonds are worth \$20,000,000, or \$10,000,000.

This road completed would be 345 miles long, and would have a personal property worth not less to-day than \$1,500,000, and with a debt of only \$6,000,000, and with the present earnings of \$2,000,000 a year. I think no man at all familiar with the history of roads, with a population as large as that tributary to this line, and not only a large population, but a manufacturing community, — I think no man could look at it without being satisfied that this Corporation, managed intelligently and with integrity, — which is one of the hazards nowadays of all corporations, — I think there can be no doubt that we can readily meet the interest account upon all obligations that this Company would assume.

In regard to this matter of through and local business, which

has been referred to by objectors, I think that was very clearly and cleverly treated by the General Manager. It may, however, be proper to add, that the only possible way to do local business well is to have a thorough business. It cannot be done any other way. Local business can be carried a great deal less, — without saying how much less, — for a great deal less money, if the road has a through business as well as a local. For one thing, the rolling-stock can be used to so much greater advantage. We found we can get about as much out of a car on a train that travels two hundred and forty miles as we can out of one that travels fifty miles. The great loss is at the terminal points, in loading any discharging. The through freight always goes along: the local freight has to stop at every station to take on or to drop cars. The only possible way to get a cheap rate for local is to have abundant through freight.

Q. Did this six million contemplate the laying of a double track?

A DOUBLE-TRACK ROAD.

MR. CLARK. No, sir. I will state for the information of the Committee, that, on a large part of the road, the cuttings, embankments, and masonry, particularly on the new parts of the road, have been built, and are substantially completed, for a double-track road. Expenditures for this is one of the things that embarrassed the Boston, Hartford, and Erie Railroad Company in 1868. You would be surprised if you could go over the unfinished portion of the road west of Waterbury, and see the scale on which they spent their money there. Three millions of dollars are lying out there lost, unless something is done; yielding not one single cent of revenue, but calling upon us every little while for a new highway-bridge, or some assessment of taxes for school-purposes, or fire-purposes, or city or town purposes, all of which we have to meet from the revenues of one hundred and thirty-nine miles of road we operate.

MR. GILBERT. Is that portion of the road built for a double track?

MR. CLARK. Yes, sir.

MR. GILBERT. What is the distance?

MR. CLARK. About seventy miles.

MR. GILBERT. How much of the road is built for a double track?

MR. CLARK. Substantially the whole of the new part. There are different characteristics growing out of the time it was constructed. That portion built by the Boston, Hartford, and Erie

Railroad Company, which includes the portion between Putnam and Willimantic and the road from Waterbury to the Hudson, are built upon a scale of most extraordinary expenditure. The old portion of the road, known formerly as the Norfolk-County Railroad, shows a very different style of work. It is built for a single track; and the masonry was built for engines and equipment which in those days was considered ample,—engines weighing from twelve to fifteen tons, instead of forty.

Q. Which part of the road is that?

Mr. CLARK. The part nearest Boston. The worst part is the part that gentlemen are most likely to see. It improves steadily as you go toward the western end. It is built on a much more expensive scale at the western end. The part between Putnam and Willimantic has been graded: not only is the masonry there, but it had been substantially graded for a double track for that twenty-five miles, at a cost of about a hundred thousand dollars a mile in cash. It cost \$2,400,000, and the distance is about twenty-five miles.

Mr. WILDER. That statement would not necessarily question the judgment of the managers of the road at that time, they having stated that it was built for a purely local road?

Mr. CLARK. Mr. Bird said, that, in the origin, the old Norfolk-County Road was built for a local road. When the Boston, Hartford, and Erie Railroad Company was incorporated in 1863, it was a corporation formed originally to buy up and absorb some four or five different roads, which were originally constructed for local roads, and consolidate them in one grand through line. That is the exact history of the New-York Central Road: it is a road formed by the combination of a great many little roads which had been originally constructed by the communities interested for local purposes. Of course, a large expenditure has been made upon them to make it a through line.

Mr. WILDER. Mr. Bird was asked near the close of his testimony, "You know the history of this road from the beginning; what was the purpose of it?" and he replied, "It was originally chartered as a local road from Blackstone to Boston." He says it was originally chartered as a local road.

Mr. CLARK. As I said, that was the Norfolk-County Road. That was built as a local road. We have been engaged for seven or eight years in rebuilding the abutments, culverts, &c., on this part of the line.

Q. You don't need a double track between Putnam and Willimantic to do the local business there is there?

Mr. CLARK. Not at all. We have been trying to develop a milk business from that part of the road, the country being a fine farming region.

THE ONLY PRACTICABLE LINE VIA HARTFORD WEST.

Mr. TUCKER. There seems to be on this railroad map a line running to Millerton and Canaan, and also a line going down to Poughkeepsie in the same direction, making a line from Poughkeepsie to Hartford. Why does not that give an outlet for this coal? And, if a road exists, what is the necessity for building a new road?

Mr. CLARK. That was a line that it was proposed to use to meet our desire to serve our local interests by opening direct connection to the West. It happened in this way: The Erie Road was desirous of making an all-rail line into New England, and we discussed this route at length. In that line, the first road, beginning at the river, was the Dutchess and Columbia Road; the next was the Connecticut Western; and the next in the route was the Hartford, Providence, and Fishkill Railroad; and lastly our own road. Upon the principle I have announced to you as to the division of all through earnings, while the Erie Railway was willing to give us east of Fishkill a larger amount per car than the Boston and Albany Road gets for freight east of Albany, if any part of the freight should stop five miles this side of Fishkill, the Dutchess and Columbia Road would and did claim the entire New-England division to itself.

If it passed from that road, and went to a local point on the Connecticut Western, it was willing to share the New-England division with the Connecticut Western Road; but nothing east of that road got any thing out of it.

If it came east of Hartford, on to the Hartford, Providence, and Fishkill Road, the two roads over which it had passed, and the latter road, would absorb all the New-England division on that freight; while, if it came on to our road to come through to Boston, they were all willing to divide the New-England division with us.

With four separate corporations between Boston and the Hudson River, I expressed the situation at one of our conferences in this way: The Dutchess and Columbia Road got all the fat; the Connecticut Western got a streak of fat and a streak of lean; the Hartford, Providence, and Fishkill got all the lean; and the New-York and New-England Road got only the gristle, and we could not afford it.

Mr. TUCKER. If this line from Hartford to the Hudson River

has not been able to get enough trade to prevent it from becoming bankrupt, what reason is there for believing, that, with your road completed to Fishkill, you will do a good business?

Mr. CLARK. Upon this same principle which I should be very glad to state to the Committee. The Erie Railway to-day is sending to Boston by our Norwich line, to and from Boston and points reached by our lines which are competitive, its high-class freight, and paying us about twenty per cent more than it could reach Boston by one of our competing Sound lines. We are doing this business, and we get twenty per cent more for doing it than our competitor would have done it for. You may ask why they gave it to us. It is because our road, with its varied connections, could give them outlets into and out of Providence, Boston, Norwich, New London, Worcester, Blackstone, Willimantic, Walpole, and Boston, which are all competing points, while our competitor reached only two of these points. If you can make a single contract with a corporation to put you wherever you want to go, it will give them a volume of business; and it is a greater object for them than if you could give them access to but a single point.

Those roads disconnected and disjointed, without a head, were unable to make any arrangement with the Erie Railway which would make them what could be considered in any sense a through line. I think that answers the question.

Mr. HART. Mr. Roosevelt's summer residence is in the immediate neighborhood of the Dutchess and Columbia Road and Poughkeepsie and Eastern Roads, and he may be able to give the Committee some information in regard to those roads.

Mr. ROOSEVELT. Both roads are badly constructed, badly built, have short curves, heavy grades, and light rails.

Mr. TUCKER. Are those grades and curves such as to prevent their doing business, if there was any to be done?

Mr. ROOSEVELT. Yes, sir: any large amount of business at reasonable rates. They have as yet no connections for through business. They were not built originally to accommodate through business.

Mr. TUCKER. Our query was, If there was a large amount of through business to be done there, why they did not do it?

Mr. ROOSEVELT. They have no connections, and no credit at present to make connections with.

Mr. TUCKER. If they could be brought together, and should connect with this road at Hartford, the line that way to Poughkeepsie would not be much longer or harder than the proposed route through Waterbury that is not built.

Mr. CLARK. It would be much harder. Our grades nowhere exceed sixty feet to the mile, and our train load is two hundred tons, — say twenty carloads, — with which we can run over the road with an ordinary single engine. I think the maximum load on the Connecticut Western is about six cars. We can do business where they would starve.

Q. What is the comparative distance?

Mr. CLARK. The distance is the same, within a few miles.

Q. Their grades are worse?

Mr. CLARK. Immensely: very much worse. But, to begin to do business, the impossibility of forming a through line is the one I spoke of.

Q. If that difficulty could be met by a consolidation of the roads?

Mr. CLARK. It would be better to take what money is necessary, and complete this road, which, when finished, is a better road, than to expend it in getting those gentlemen who are unfortunately situated out of their dilemma.

Q. Would not this be the fact, if that road was running to the Hudson? The business from that end of the road would come over this end of the road; and the through business would also pass over that end of the road, which would make it a profitable portion of the road.

Mr. CLARK. As to the local business, we do that now. We exchange local business for local points with their road: with the present facilities for transfer, we send as much as we can. The part of the New-York and New-England Road that we operate, however, does not get the benefit of that, as the Hartford, Providence, and Fishkill Road takes it to Providence, and sends it over the Boston and Providence Road to Boston. Of course, if there was any business to come through, we should be very glad to take it. But the objections, I may say the impossibility, of forming an efficient through line with them, is fundamental, and can never be avoided. I should like to say to the Committee, in addition, that there is still another road running from the river at Rhinebeck; and over that road from Rhinebeck (which is opposite Rondout, at the end of the Delaware and Hudson Company's Canal), coal is brought successfully to points east of Hartford, but in limited quantities.

Q. Why not in large quantities?

Mr. CLARK. They cannot afford to do it, on account of the grades on the Connecticut Western.

Mr. ROOSEVELT. They connect with the Delaware and Hudson Canal Company at Rhinebeck.

Q. What are these railroads that go west from Rondout?

Mr. ROOSEVELT. There is a railroad that runs up into the mountains, and the canal of the Delaware and Hudson Canal Company comes out into the river at that point. The railroad connects with the New-York Central somewhere.

Q. What is the Hudson-river terminus of the Erie Railway?

Mr. HART. Newburg, opposite Fishkill. The Erie Road is built to Newburg.

NEW ALL-RAIL LINE TO NEW YORK.

Mr. CANNON. I think perhaps another fact sometimes overlooked is, that this road will intersect the Harlem Road at Brewsters; and, by making connection with that road, we can make a line to New York, which is precisely the same distance between Boston and New York as the line by way of Springfield. By completing this road to Brewsters, we could open a new route to New York. That could be done at small expense.

The CHAIRMAN. Is there any thing further?

Mr. HART. There is nothing that occurs to me. We have stated all the points which occur to us as being important. The State of Massachusetts, I think, has never lost any money in consequence of its loan to railroads up to this time. I believe that they have always been repaid, except the Tunnel loan. Of course, there is an amount invested there which it can hardly expect to recover.

We of the management have thought the State could save itself from further loss in consequence of its loan to the Boston, Hartford, and Erie Company; the only other bad one, to speak plainly about it. We are not responsible for its having been made; but we present this way of getting out of it.

We needed the money, as we felt that it was important that we should take up the underlying liens, and complete our road. We cast about, and said, "How shall we get it?" I remember very distinctly, at a stockholders' meeting held a year ago, Col. Cannon, who was present, stated the importance of raising this money; and he said he would be one of thirty to furnish six millions of dollars. I think we should have found half a dozen present at that meeting who would have done the same thing, and furnished two hundred thousand dollars apiece, such was their confidence.

You understand perfectly well, that if a syndicate were going to take these bonds, and furnish this money, it would want them at as low a price as it could get them, and that would remove so much farther away the value of the stock.

THE STATE BENEFITED BY THE LOAN.

We said to ourselves, "We ought to go to the State and offer the Commonwealth this opportunity of making good their investment in the property, which we may do with no loss to ourselves. Until we have done that, why should we talk about it among ourselves?" We concluded that we ought to do it; that it was our duty to do it. I should not have felt that we were discharging our duty if we did not bring to your consideration this plan. It is simply giving to the State what we save by getting cheap money, — money at a low rate of interest, as you will see, if you will look at the results in figures. They are startling in the amount of saving which they show. We can save to the State, even at the low rate of four per cent per annum, six millions and a quarter of dollars, and still make money by it ourselves.

It is a proposition which we submit for your consideration.

It is a business question, entirely disconnected from politics; and this a simple conference among ourselves as to the best plan for developing this great enterprise, and saving the State from further loss.

While I do not go to the extent in my expectation of the original projectors of this enterprise, I do think there is a great deal in it.

It is proper, perhaps, that I should note an objection that was made by one of the gentlemen, that a large part of this expenditure is in another State. That is true; but we cannot help it now. The responsibility for that rests with those who voted for it at the time. They did not think it wrong to vote three millions and a half of dollars to invest west of a road that they had not got possession of, and they did it. We find a portion of the security for a new loan is out there. The security, however, we think, is sure. I should, perhaps, say, in justice to all the other States in which our property lies, that they have never failed in a single instance to pass corresponding acts to those which we have found necessary to pass by this Legislature. They have followed in their legislation the action of the Legislature of Massachusetts, and their courts have passed the same decrees as the courts of this Commonwealth.

In no single instance have we been defeated in a lawsuit affecting our title. Mr. Dillon, who had the contract for the construction of the road west of Waterbury, had a claim against the old Company of a million of dollars. It may surprise you that he continued work without having received the money: he put \$3,200,000 in cash in the work. But there was pending in this

Legislature in 1870 an application for State aid, with a prospect of success; and he was encouraged to keep his men at work. Mind you, it was within six months of completion at the time he ceased work. There is not a quarter of a mile of road on which work has not been done. It was all underlet, and in the process of construction. But with all that expenditure we have nothing to do. We want to see it finished. We want to get to the Hudson River. I think there is a contract between the Erie Railway Company and the Delaware and Hudson Canal Company, by which the Delaware and Hudson Canal Company have the right to transport their coal, not only on the Erie Road, but on their connections over other roads.

Mr. CANNON. Yes, sir: that is so. It is a contract for all time. It is what they call a traffic contract, — one that is a good one for these roads to go into. The coal at the mine is valued at the cost price; then the railways transport it at a minimum price, at what they assume to be cost; then whatever the coal sells for is divided with the coal company and the railway company *pro rata*, according to the length of the haul. So that they all have an object in transporting it for the lowest price, and in getting the highest price for the coal.

Mr. HART. Mr. Dillon's suit was conducted by eminent counsel, and he was advised that he had a prior claim to the Berdell mortgage. Mr. Bartlett so advised him, and carried his case to Washington; but he lost it. That, of course, settled the claim of Mr. Munson, who had a similar contract to build the road from Putnam to Willimantic; and there was due him about seven hundred thousand dollars. Both claims against the road were thus adjudged invalid as against the Berdell mortgage.

We hope the Committee will see the interests of the State as we see them, and furnish the means for carrying out this work. The details as to how the State can be made a preferred creditor can be worked out in a bill. You understand that now we are authorized to mortgage the road for ten millions of dollars, and that the bonds secured by this mortgage are substantially unissued.

The Legislature, if it sees fit to negotiate with us for a loan, can treat them as all in our hands; and I have no doubt we can save the State from any loss. And if any legislation is necessary, any concurrent legislation in the other States, I have no doubt it could be obtained at the present time in Connecticut, Rhode Island, or New York; for, as I said before, we have always found them favorably disposed and ready to confirm every thing tending to make this a success. Of course, we can see that Connecticut

would congratulate itself on having the road completed, and through connections made with the West for its citizens.

Q. You say, in your Report of last year, that the road can be completed for three millions. Now you say it can be completed for two millions.

Mr. HART. We have had a careful examination made, and two millions is a large allowance for completing the unfinished portion of the road. The estimates of the engineer who has been over the road includes every thing,—stations, engine-houses, shops, steel rails, and every thing of the sort.

It does not seem to me that there will be anybody who will have doubts as to whether a mortgage of six millions on this completed road will be perfectly secured.

Mr. TUCKER. Some of us have noticed in the Railroad Commissioners' Report (House Document No. 325, p. 8) that they speak of an inspection of this road by Mr. Winslow, formerly Superintendent of the Boston and Lowell Railroad, and think that perhaps he could give us some light as to the present condition of the property, rolling-stock, &c., and the probable necessity for further expenditures from year to year hereafter. He is a disinterested party.

Mr. HART. That was the reason why the Railroad Commissioners took him as an expert. They felt that the subject of the value of the property was committed to them; and so thoroughly did they go into it, that they took an account of every shovel and every pickaxe, every pound of coal, and every pound of iron, and counted the chairs in the stations: they did their work thoroughly. Mr. Winslow, being an expert in railroad-matters, was consulted, and made a personal examination of the whole property.

It is very fortunate for the Committee that they have the Special Report of the Railroad Commissioners (House Document 325 of 1877), which will best aid them in coming to any conclusion in regard to this matter.

Adjourned.

SUPPLEMENTARY STATEMENT BY THE
RAILROAD COMPANY.

SUPPLEMENTARY STATEMENT BY THE RAILROAD COMPANY.

We desire also to call your attention to some topics not adequately developed in the hearing before the committee.

1. By the special report of the railroad commissioners made in April, 1877 (House Document No. 325, 1877, p. 18), the total property and assets of the New-York and New-England, and Hartford, Providence, and Fishkill Railroads, *over and above their liabilities*, are estimated at \$7,526,183.89.

In making up this valuation, the completed sections of the road were appraised at \$36,000 per mile; and the unfinished section between Waterbury and Hopewell Junction, at \$11,000 per mile. It has been objected that the commissioners speak of these figures as an arbitrary valuation; and from the nature of the case it must have been arbitrary in the true signification of that word, viz., discretionary, and not depending on fixed rates. But it by no means follows that the estimate is not a fair and just statement of the true value of the company's property. It was the duty and manifest intention of the commissioners to use their best judgment and discretion; and there is every reason to believe that they did so carefully and conscientiously, upon a moderate and conservative basis. They expressly state that the earning capacity of the road in its unfinished condition "*does not afford a fair test*;" and the assertion that their valuation of the road is only \$11,000 per mile is altogether erroneous.

2. The report of the legislative committee made in January, 1878 (House Document No. 2, pp. 9, 10), states the net earnings for the year ending Sept. 30, 1877, as found in the last Report of the Directors (p. 5), to be \$184,383.37, but falls into the singular error of deducting therefrom rent of land in Boston, about \$55,000, although that rent, amounting to \$55,268.77, had been

already once deducted (as shown in the Annual Report of the Directors, p. 5).

The committee do not make this double deduction directly from the amount of the net earnings as stated by them; but on p. 10 they add the amount of the rent to the amount of interest which the Company will have to pay, and then, in stating the ability of the Company to meet these payments, they give only the net earnings, from which the amount of the rent has already been deducted; thus virtually taking from the net earnings of the Company the rent of fifty-five thousand dollars twice.

The committee also state the net earnings of the Hartford, Providence, and Fishkill division of this road, for the year ending Sept. 30, 1876, to have been \$166,594.

Avoiding the error of a double subtraction of the land-rent in Boston, the net earnings of the two divisions of the road, one for the year 1876, and the other for the year 1877, are found to have been, as stated by the committee, \$350,977.37. But by the returns of the Hartford, Providence, and Fishkill Road to the Railroad Commissioners of Connecticut, it appears, that, for the year ending Sept. 30, 1877 (one year later than that referred to above), the net earnings of that road amounted to \$215,938.85, which is about \$40,000 more than the earnings for 1876. Adding this amount to the net earnings of the division operated by the New-York and New-England Railroad Company, \$184,383.37, and we have as the net earnings of the entire property for the year ending Sept. 30, 1877, \$400,322.22, and this after deducting the \$55,268.77 paid for rent in Boston.

3. Should the Commonwealth accept the proposition now under consideration, the \$6,000,000 to be advanced would pay off all underlying encumbrances, redeem and secure possession of the Hartford, Providence, and Fishkill Division, and complete the road to the Hudson River. That this amount would suffice to accomplish these purposes, appears from the report of the legislative committee (p. 9), which states all the debts and liabilities to be \$4,016,690

To which add the cost of completing the road to the Hudson River, estimated by the Commis- sioners' Report (p. 3) at	1,600,000
	<hr/>
	\$5,616,690

The debts of every description would be entirely paid, and the corporation would own property valued, in its present unfinished

condition, by the Railroad Commissioners (see Exhibits 5 and 6, House Doc. 325, 1877), as follows:—

New-York and New-England, with its equipment,	\$5,632,459.68
Hartford, Providence, and Fishkill, with its equipment	5,463,015.78
Aggregating now	\$11,095,475.46

To which add the expense of finishing the road west of Waterbury, by which its value would be enhanced to the amount of such cost	1,600,000.00
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The total value is \$12,695,475.46

Subject to the debt for the advance proposed, 6,000,000.00

It would seem, then, to be demonstrated, that, upon a thoroughly conservative valuation, the Commonwealth would hold a security more than double the amount of its contemplated advance.

4. With reference to the earning capacity required to insure the success of the plan, it is necessary that the completed line of three hundred and forty-five miles of railroad should earn five per cent on \$6,000,000	\$300,000.00
And the amount now paid out by the State as interest,	180,000.00

In all of net earnings \$480,000.00

Or only about \$1,400 per mile net after its completion. This will require, over the net earnings of the last fiscal year, an increase of only about \$80,000 per annum.

If the property in its present unfinished and disjointed condition, laboring under many inevitable disadvantages, earns net \$400,422.22, exclusive of its payments for terminal lands in Boston, will it not increase its net income far more than \$80,000, and much exceed the required aggregate of \$480,000, when it constitutes a continuous line under one management, from Boston to the Hudson River, and is then brought into close connection with the Erie Railroad, and the Pennsylvania Central Railroad, and can transport coal from the mines of Pennsylvania and all the products of the West and South-west, directly, without breaking bulk, to Waterbury, Hartford, Norwich, Providence, Worcester, Boston, and all other intermediate points?

5. If the proposition under discussion is indeed safe for the State, its great merits in a business point of view to those whose duty it is to protect and promote the financial interests of Massachusetts require no explanation. By the year 1900, Massachusetts will have saved more than the entire advance of \$6,000,000 from

the annual payments of \$180,000; and this without ever paying a dollar from the public treasury.

Besides which the stock which represents the State's present investment in the railroad will be much enhanced in value.

6. The very large interest the State has in lands and docks in Boston Harbor, — embracing hundreds of acres, much of which has already been reclaimed at great cost, and made ready for occupancy, furnishing the most ample accommodations to be found on our coast for the erection at tide-water of warehouses, elevators, and other structures necessary for the conduct of an extensive foreign traffic, — cannot but be favorably affected if this road, which is the only one that runs directly to the State's newly-filled territory, is completed, and the line used in the transportation of merchandise to and from the West.

7. It is for many reasons important that the Commonwealth should arrive at a prompt and final decision as to the course it will pursue in regard to its large pecuniary interest in this enterprise.

The time limited for finishing the road west of Waterbury will soon expire (it has been twice extended already); and the legislation requisite for further indulgence may not be obtained, unless evidence can be presented of an ability to prosecute the construction of the road promptly and vigorously.

8. In justice to the present managers of the New-York and New-England Railroad, it should be borne in mind that every member of the board of directors was selected and elected by the Commonwealth, through the Governor and Council. No one of them has any selfish interest to promote at variance with that of the State of Massachusetts. They are all actuated by the wish and purpose to do their duty, according to the best lights they possess, — to the State, the public, and the property intrusted to their charge. The plan which they have submitted is the best and only feasible one they have been able to devise to insure the completion of an important enterprise, and to rescue the pecuniary interests of the State from their present position of embarrassment and peril.

STATEMENT

SHOWING

WHAT THE STATE WILL LOSE IF THE PROPOSITION OF THE
NEW-YORK AND NEW-ENGLAND RAILROAD COMPANY
IS REJECTED, AND WHAT THE STATE WILL
GAIN IF THE PROPOSITION IS ACCEPTED.

The State of Massachusetts in 1869 issued its scrip to the amount of three million six hundred thousand dollars, at five per cent, and loaned the proceeds to the Boston, Hartford, and Erie Railroad Company; that company agreeing to assume the payment of the interest on this scrip as it became due.

The Boston, Hartford, and Erie Railroad Company failed; and the interest on this scrip the State will be obliged to pay until the year 1900, when the principal of the debt becomes due.

The principal of this debt is provided for by a sinking fund, controlled by the State Treasurer.

It is the interest on this scrip that the New-York and New-England Railroad Company now agrees to assume the payment of (although under no obligations to do so), if the Commonwealth accepts its proposition.

The amount of the payments which the Company offers to assume, and which the State will be relieved from paying, computing interest at five per cent, is seven million one hundred and seven thousand six hundred and eighty-two dollars, as shown in the following table.

1878. July 1. State pays,	\$90,000	<i>Brought up,</i>	\$472,069
Interest on same,	2,250	Interest on same,	11,801
1879. Jan. 1. State pays,	90,000	1881. Jan. 1. State pays,	90,000
	182,250		573,870
Interest on same,	4,556	Interest on same,	14,347
1879. July 1. State pays,	90,000	1881. July 1. State pays,	90,000
	276,806		678,217
Interest on same,	6,920	Interest on same,	16,955
1880. Jan. 1. State pays,	90,000	1882. Jan. 1. State pays,	90,000
	373,726		785,172
Interest on same,	8,343	Interest on same,	19,629
1880. July 1. State pays,	90,000	1882. July 1. State pays,	90,000
	\$472,069		\$894,801

<i>Brought over,</i>	\$894,801	<i>Brought up,</i>	\$3,410,474
Interest on same,	22,370	Interest on same,	85,262
1883. Jan. 1. State pays,	90,000	1892. Jan. 1. State pays,	90,000
	1,007,171		3,585,736
Interest on same,	25,179	Interest on same,	54,643
1883. July 1. State pays,	90,000	1892. July 1. State pays,	90,000
	1,122,350		3,730,379
Interest on same,	28,058	Interest on same,	93,260
1884. Jan. 1. State pays,	90,000	1893. Jan. 1. State pays,	90,000
	1,240,408		3,913,639
Interest on same,	31,010	Interest on same,	97,840
1884. July 1. State pays,	90,000	1893. July 1. State pays,	90,000
	1,361,418		4,101,479
Interest on same,	34,035	Int'st on same,	102,537
1885. Jan. 1. State pays,	90,000	1894. Jan. 1. State pays,	90,000
	1,485,453		4,294,016
Interest on same,	37,136	Int'st on same,	107,350
1885. July 1. State pays,	90,000	1894. July 1. State pays,	90,000
	1,612,589		4,491,366
Interest on same,	40,315	Int'st on same,	112,234
1886. Jan. 1. State pays,	90,000	1895. Jan. 1. State pays,	90,000
	1,742,904		4,693,600
Interest on same,	43,573	Int'st on same,	117,330
1886. July 1. State pays,	90,000	1895. July 1. State pays,	90,000
	1,876,477		4,900,930
Interest on same,	46,912	Int'st on same,	122,523
1887. Jan. 1. State pays,	90,000	1896. Jan. 1. State pays,	90,000
	2,013,389		5,113,453
Interest on same,	50,335	Int'st on same,	128,836
1887. July 1. State pays,	90,000	1896. July 1. State pays,	90,000
	2,153,724		5,332,289
Interest on same,	53,943	Int'st on same,	133,307
1888. Jan. 1. State pays,	90,000	1897. Jan. 1. State pays,	90,000
	2,297,667		5,555,596
Interest on same,	57,442	Int'st on same,	138,889
1888. July 1. State pays,	90,000	1897. July 1. State pays,	90,000
	2,445,109		5,784,485
Interest on same,	61,128	Int'st on same,	144,612
1889. Jan. 1. State pays,	90,000	1898. Jan. 1. State pays,	90,000
	2,596,237		6,019,097
Interest on same,	64,906	Int'st on same,	150,477
1889. July 1. State pays,	90,000	1898. July 1. State pays,	90,000
	2,751,143		6,259,574
Interest on same,	68,779	Int'st on same,	156,489
1890. Jan. 1. State pays,	90,000	1899. Jan. 1. State pays,	90,000
	2,909,922		6,506,063
Interest on same,	72,748	Int'st on same,	162,651
1890. July 1. State pays,	90,000	1899. July 1. State pays,	90,000
	3,072,670		6,758,714
Interest on same,	76,817	Int'st on same,	168,968
1891. Jan. 1. State pays,	90,000	1900. Jan. 1. State pays,	90,000
	3,239,487		
Interest on same,	80,987	<i>Amount saved to the State</i>	
1891. July 1. State pays,	90,000	<i>if proposition is ac-</i>	
		<i>cepted,</i>	\$7,017,682
	\$3,410,474		

COMPARISON
OF THE
NEW-YORK AND NEW-ENGLAND RAILROAD
WITH THE
BOSTON AND ALBANY RAILROAD
AS TO
POPULATION AND VALUATION OF CITIES AND TOWNS ON
LINE OF ROADS.

THE following tables show a comparison of the population and valuation of the cities and towns on the lines of the New-York and New-England Railroad and branches, and the Boston and Albany Railroad and Branches.

The figures giving the *population* of the cities and towns in New York and Connecticut are those given in the United States Census in 1870: those for Massachusetts and Rhode Island are the official returns of the State Governments for 1875.

The figures showing the *valuation* of the cities and towns in Massachusetts, Rhode Island, and Connecticut, are also from the official returns of the State Governments for 1875, copied from the "Centennial Postal and Statistical Map," compiled in 1876.

The *valuation* of the cities and towns on the lines of the roads in New-York State is not known, and is not given in the table of either road.

NEW-YORK AND NEW-ENGLAND RAILROAD.

(MAIN LINE.)

NAME OF CITY OR TOWN.	POPULATION.	VALUATION.
Boston	341,919	\$793,961,895
Hyde Park.....	6,316	6,844,477
Dedham.....	5,756	5,989,865
Norwood.....	1,749	1,792,500
Walpole	2,290	1,376,314
Norfolk.....	920	431,123
Franklin	2,983	1,437,200
Bellingham.....	1,247	527,968
Blackstone	4,640	2,111,455
Uxbridge.....	3,029	1,840,103
Douglas	2,202	967,046
Thompson	3,804	1,935,200
Putnam.....	4,192	2,084,779
Pomfret.....	1,488	796,936
Hampton	891	436,696
Chaplin	704	266,390
Mansfield	2,402	690,851
Willinantic	5,413	3,426,420
Providence.....	100,675	121,954,700
Cranston.....	5,688	6,798,750
Warwick.....	11,614	10,418,400
Coventry, R.I.....	4,580	4,053,400
Sterling.....	1,022	371,869
Plainfield	4,521	2,083,120
Canterbury.....	1,552	603,250
Lisbon.....	503	302,012
Sprague.....	3,462	1,317,017
Columbia	891	306,334
Coventry, Conn.....	2,057	790,807
Andover	462	251,143
Bolton	579	219,794
Vernon	5,447	2,514,082
Manchester.....	4,236	2,295,601
East Hartford.....	3,013	1,606,482
Hartford.....	37,825	48,516,668
West Hartford.....	1,533	1,885,571
Newington (new town, population not given)	550,932
New Britain.....	9,480	4,592,952
Plainville	1,435	864,754
Bristol.....	3,790	1,952,162
Plymouth	4,149	2,342,652
Waterbury	13,148	8,081,943
Naugatuck.....	2,830	1,501,856
Middlebury.....	696	362,381
Oxford.....	1,338	411,765
Southbury	1,819	704,700
Newtown	3,683	1,863,496
Brookfield.....	1,194	651,276
Bethel	2,312	901,402
Danbury.....	8,754	5,409,409
Southeast.....	2,975	
Patterson	1,418	
Pawling.....	1,760	
Beekman	1,486	
East Fishkill.....	2,306	
Fishkill.....	11,752	
Newburg.....	17,014	
Total Population and Valuation Main Line.	674,944	\$1,063,397,895

BOSTON AND ALBANY RAILROAD.

(MAIN LINE.)

NAME OF CITY OR TOWN.	POPULATION.	VALUATION.
Boston.....	341,919	\$793,961,895
Newton.....	16,503	28,955,869
Weston.....	1,282	1,731,616
Needham.....	4,548	4,748,184
Natick.....	7,419	3,685,190
Framingham.....	5,167	4,363,280
Ashland.....	2,211	1,380,610
Southboro'.....	1,986	1,404,267
Westboro'.....	5,141	2,465,373
Grafton.....	4,442	1,885,483
Millbury.....	4,529	2,518,118
Worcester.....	49,317	49,267,081
Leicester.....	2,770	1,964,841
Auburn.....	1,233	554,759
Charlton.....	1,852	1,010,750
Spencer.....	5,451	2,605,027
Brookfield.....	2,660	1,277,593
West Brookfield.....	1,903	831,028
Warren.....	3,260	1,808,537
Brimfield.....	1,201	565,490
Palmer.....	4,572	1,873,662
Monson.....	3,733	1,338,311
Wilbraham.....	2,576	958,355
Springfield.....	31,053	39,524,572
West Springfield.....	3,739	2,806,312
Westfield.....	8,431	7,299,675
Montgomery.....	304	141,726
Russell.....	643	423,585
Huntington.....	1,095	513,225
Chester.....	1,396	529,072
Middlefield.....	603	372,660
Becket.....	1,329	500,547
Washington.....	603	261,856
Hinsdale.....	1,571	824,373
Dalton.....	1,759	1,289,227
Pittsfield.....	12,267	8,412,236
Richmond.....	1,141	614,189
West Stockbridge.....	1,981	942,620
Canaan.....	1,877	
Chatham.....	4,372	
Kinderhook.....	4,055	
Schodack.....	4,442	
Greenbush.....	6,202	
Albany.....	69,422	
Total Population and Valuation Main Line...	633,960	\$975,611,194

NEW-YORK AND NEW-ENGLAND RAILROAD.—CONTINUED.

(BRANCHES.)

NAME OF CITY OR TOWN.	POPULATION.	VALUATION.
Brookline.....	6,675	\$27,579,100
Newton	16,503	28,955,869
Needham.....	4,548	4,748,184
Dover	650	442,179
Medfield	1,163	945,295
Medway.....	4,242	1,783,925
Bellingham (given in Eastern Division)....		
Woonsocket.....	13,576	9,513,270
Webster.....	5,064	1,928,055
Dudley.....	2,653	1,046,279
Southbridge	5,740	2,949,694
Total Population and Valuation Branches....	60,814	\$79,891,850

RECAPITULATION.

NEW-YORK AND NEW-ENGLAND RAILROAD.

	POPULATION.	VALUATION.
Boston.....	341,919	\$793,961,895
Eastern Division.....	50,026	32,955,323
Providence.....	100,675	121,954,700
H. P. & F. Completed.....	120,987	102,719,695
H. P. & F. Incomplete.....	61,337	11,806,285
Woonsocket Division	47,357	73,967,822
Southbridge Branch	13,457	5,924,028
Total Population on line of New-York and New-England Road and Branches	735,758	
Total Valuation of Cities and Towns on New- York and New-England Road and Branches, exclusive of Cities and Towns in New-York State.....		\$1,143,289,748

BOSTON AND ALBANY RAILROAD. — CONTINUED.

(BRANCHES.)

NAME OF CITY OR TOWN.	POPULATION.	VALUATION.
Brookline.....	6,675	\$27,579,100
East Holliston.....	3,399	1,904,170
Milford.....	9,818	5,069,863
Ghent.....	2,803	
Hudson.....	7,187	
Greenport.....	1,431	
Total Population and Valuation Branches ...	31,313	\$34,553,133

RECAPITULATION.¹

BOSTON AND ALBANY RAILROAD.

	POPULATION.	VALUATION.
Boston.....	341,919	\$793,961,895
Boston to State Line.....	201,671	181,649,299
State Line to Albany.....	90,370	
Branches.....	31,313	34,553,133
Total Population on B. & A. Road and Branches	665,273	
Total Valuation of Towns and Cities on the line of B. & A. R.R. and Branches, exclud- ing Cities and Towns in New-York State...		\$1,010,164,327

REPORT
OF THE
RAILROAD COMMISSIONERS
ON THE
FINANCIAL CONDITION
OF THE
NEW-YORK AND NEW-ENGLAND RAILROAD.
1877.

Commonwealth of Massachusetts.

HOUSE OF REPRESENTATIVES, March 1, 1877.

Ordered, That the Board of Railroad Commissioners be instructed to examine into, and report upon the financial condition of the New-York and New-England Railroad Company; said examination to cover the assets and liabilities of such company, together with all facts which may contribute to a full knowledge of its financial affairs.

HOUSE OF REPRESENTATIVES, March 2, 1877.

Adopted. Sent up for concurrence.

GEO. A. MARDEN, *Clerk*.

SENATE, March 7, 1877

Adopted in concurrence.

S. N. GIFFORD, *Clerk*.

In compliance with the foregoing order, an exhibit of the present financial condition of the New-York and New-England Railroad Company, and the following Report in explanation of certain points in the same, is submitted.

REPORT.

THE New-York and New-England Railroad Company is an organization which succeeded to the Boston, Hartford, and Erie Railroad Company, under a strict foreclosure of what is known as the Berdell mortgage on the property of the latter. The property and affairs of that company were placed in the hands of trustees, under control of the courts, Sept, 13, 1871, and subsequently, on the 27th of July, 1875, were transferred by those trustees to the present corporation. The views of the trustees as to the condition of the property while held by them, and the necessity for its transfer to the new corporation, were set forth in detail by them in a letter to the Governor, a copy of which is herewith submitted, in Exhibit No. 1, page 11. The names and dates of the numerous anterior organizations which have been merged in the present one are exhibited in the genealogical chart also herewith submitted. (Exhibit No. 2, page 14.)

LENGTH OF ROAD.

The company now controls and operates 139 miles of road ; extending from Boston to Willimantic in the State of Connecticut (86 miles), and from Brookline to Woonsocket in Rhode Island (34 miles), with branches from East Thompson to Southbridge (17 miles), and from Islington to Dedham (2 miles). It also operates, under a lease, the Norwich and Worcester Road (66 miles), partly in Connecticut and partly in Massachusetts. Besides this amount of road in actual possession and operation, the corporation has, under the terms of the Berdell mortgage and the agreements contained in a deed and lease to the Boston, Hartford, and Erie Railroad Company, a right to take the Hartford, Providence and Fish-kill Road in Connecticut and Rhode Island (123 miles), now in the hands of trustees, on payment of underlying and out-

standing bonds to the amount of \$2,055,500, secured by mortgage on the property of that company. It is also the owner of a franchise and unfinished road-bed from the terminus of the Hartford, Providence, and Fishkill Road, at Waterbury, in Connecticut, to a junction with the Dutchess and Columbia Road, at Hopewell Junction, in New York (65 miles); at which point it would secure a through connection with the Erie and other Roads of the national system. The company is also authorized to extend its road from Hopewell Junction to the Hudson River.

To secure the possession of the whole property covered by the Berdell mortgage, and to complete the company's connections, would require an outlay of \$2,055,500 in payment of the Hartford, Providence, and Fishkill debt, and the expenditure of not less than \$1,600,000 in the completion of the extension west of Waterbury. This last portion of the route, the members of the Board have not personally examined; but they submit the above figures as the estimate of two very competent engineers, which have been communicated to the Board as part of the present investigation. It would appear, therefore, that a further investment of \$3,655,500 would secure to the New-York and New-England Company a fairly equipped road of 327 miles of main track and branches, with 13 miles of double track, constituting a through line from the cities of Boston and Providence respectively to a Western connection.

LIABILITIES.

The corporation now owes a net debt of \$1,011,201.48, after deducting cash and cash assets; of which \$343,000 is funded in its seven-per-cent mortgage-bonds, being a part of a total issue of \$10,000,000 authorized by law. (Acts 1873, chap. 289, sect. 4.) The balance of the above indebtedness, amounting to \$668,201.48, is in the form of notes, &c., \$513,500 of which have been overdue since September, 1876, and are still unpaid, being carried at seven-per-cent interest by the present holders. In addition to the \$343,000 mortgage-bonds above referred to as outstanding, 156 other bonds of \$1,000 each, of the same description, though unissued, have been placed as collateral in the hands of certain holders of unsecured notes. The balance of these bonds, \$9,501,000,

are in the possession of the corporation. The \$343,000 bonds which have been issued were sold by the corporation at a discount of \$67,800 from their face value. The notes maturing September, 1876, originally amounted to \$750,000, and were subscribed for, and subsequently taken, at their par value; except one amount of \$200,000, which, the first subscriber being unable to take them, were sold at a discount of 15 per cent. With a view of aiding the enterprise, the State of Massachusetts took \$250,000 of these notes, which are still unpaid; and the balance was taken by the directors, or by others through their influence.

This total net liability (\$1,011,201.48) of the new corporation represents the amount which still remains unliquidated* of an indebtedness, as appears by its books, of \$1,568,056, incurred on account of expenses and disbursements of an unusual character since the road went into the hands of receivers in August, 1870. These items of unusual expenditure are set forth in detail in Exhibit No. 3, page 14. Under ordinary circumstances of re-organization, they would have appeared as a part of the original cost of the property, and have been charged directly to the construction account. They include the following:—

Legal and other expenses incident to foreclosure and obtaining possession of the property	\$564,364 70
Expended in completing the Willimantic extension and other permanent improvements	1,003,691 48
	<hr/>
	\$1,568,056 18

The whole of this expenditure seems to have been legitimately made, and its items properly charged. Of it the sum of \$55,854.70 has been met out of the net earnings of the company, leaving outstanding a total net debt of \$1,011,201.48, as reported.

Of the whole amount (\$20,000,000) of Berdell bonds, \$5.685,000 only have been converted into stock, of which the Commonwealth holds \$3,600,000.

An impression is understood to prevail among certain of the less well-informed holders of these bonds, that they still constitute, in some way, a liability of the new corporation. It is hardly necessary to say that this impression is wholly

* Jan. 31, 1877. See Exhibit No. 9 (p. 21).

erroneous. The Berdell bonds now outstanding are wholly valueless, except for conversion into New-York and New-England Railroad Company stock.

OTHER LIABILITIES.

(1.) *New-York and New-England.*

In addition to the undisputed gross liabilities incurred since August, 1870, amounting to \$1,072,044, mortgage-bonds of various prior issues, a portion of which, it is claimed, were illegally issued, are still outstanding, to the amount, with accrued interest, of \$740,422. They do not appear on the books of the present corporation, nor in the official returns published by this Board; as they constitute a disputed liability, the extent of which, within the amount above named, remains to be determined. They are, however, fully referred to in the recent Report of the directors of the company to its stockholders. The several classes of these underlying bonds are set forth in detail in Exhibit No. 4, page 16. Other claims for land-damages, &c., to an amount not probably exceeding \$50,000, are also outstanding or in litigation.

(2.) *Hartford, Providence, and Fishkill.*

The assets and liabilities of this road are set forth in Exhibit No. 5, page 17.

The right of the New-York and New-England Railroad Company to take the Hartford, Providence, and Fishkill Road on the payment of its outstanding debt, is contested on the part of a portion of the holders of 1,673 shares of preferred, and 3,312 shares of common stock of that corporation. This question is before the courts. The counsel for the New-York and New-England corporation express the utmost confidence in the strength of its case; claiming that this is but one of numerous vexatious suits to which the property has been subjected since the year 1871. The original commissioners appointed under the Boston, Hartford, and Erie Loan Act of 1867 — among whom, it will be remembered, were the Hon. Geo. T. Bigelow and the late Gov. Emory Washburn — had their attention called to this claim, but do not appear to have thought it worthy of serious consideration. (Legis. Docs., 1869, Senate No. 7, pages 9, 15). The balance of this stock,

being 3,327 of preferred, and 12,067 of common, or a majority of each, is owned by the New-York and New-England Railroad Company.

Should the present corporation, by the sale of its bonds at par, raise the necessary funds to complete its line, by lifting the Providence, Hartford, and Fishkill mortgage, and completing the extension to Hopewell Junction, it would then, if no other indebtedness was incurred, have, including underlying bonds and interest before mentioned, a total direct liability of \$5,497,966, with a possible further liability of \$50,000; the amount of which last will depend upon the settlement of contested claims. This would be in the neighborhood of \$17,000 of indebtedness to each mile of completed road. The sale of the company's bonds at a discount would, of course, increase this indebtedness by the amount of such a discount.

ASSETS.

The assets of the company will be found set forth in detail in Exhibit No. 6, page 18. Upon the books of the company, the property stands at a nominal cost of \$21,061,729.47; the Berdell bonds being entered at their par value. Under the appraisal made by the Commissioners, the total value of the company's present assets, exclusive of the unfinished road west of Waterbury, and its contingent interest in the Hartford, Providence, and Fishkill, is \$5,632,459.68.* For the purposes of this appraisal, it was necessary to set some arbitrary valuation upon the road owned and operated. This was fixed at \$36,000 per mile, a sum much less than the actual cash cost; and includes the value of all the lands owned or claimed by the company, whether embraced in its location or otherwise, except the grove at Highland Lake in Norfolk. The value of a railroad, however, depends in a comparatively small degree on its cost compared with its earning capacity. In the case of an uncompleted road like the New-York and New-England, this is usually small, and does not afford a fair test. Judged by it, however, the appraised value of this road, as now equipped and operated, would not probably exceed \$11,000 per mile. The rolling-stock has been separately appraised, and appears in Exhibit No. 3, page 19, at its present cash value.

* Including cash assets.

As respects the lease of the Norwich and Worcester Road by the New-York and New-England Company, a difference of opinion exists, and apparently with reason. By some it is claimed that it is a valuable asset, while others insist that it is a burden. From the books of the company, it appears that since 1870 the annual rental has been regularly in excess of receipts. The amounts annually paid or received are set forth in Exhibit No. 8, page 20. As respects the value of this lease, the Commissioners cannot venture an opinion. The advantages of a lease of one road by another are often indirect and obscure, but still great; while the disadvantages are upon the surface. In this case, however, the lease is terminable at short notice, and, should it prove seriously disadvantageous, would doubtless be brought to a close. So far as appeared in the course of this inquiry, one only of the New-York and New-England directors is now in any way personally interested in the Norwich and Worcester Road.

EARNING CAPACITY.

A thorough examination of the books and accounts of the company, tested by an appraisal of its property, and a careful inspection of its road-bed, track, stations, shops, and equipment, in the light of previous similar inspections by the Board during the last six years, would seem to warrant the statement, that, since the road has been in the hands of the trustees, it has earned, in its unfinished condition, in the neighborhood of \$100,000 net per annum. This is exclusive of the annual rent (\$70,000) paid for the use of terminal grounds in Boston; a charge which is ordinarily included in the permanent investment of railroad companies, but, in this case, has to be met, as if it were an interest charge, out of net earnings. What the net earning capacity of the road would be, in case of its completion according to its original design as a railroad enterprise, is matter largely of conjecture. The Hartford, Providence, and Fishkill Road is unquestionably a valuable property, and worth far more to the New-York and New-England Company than the amount necessary to secure possession of it. How much more, however, can only be estimated. Operated independently, the road has, according to memoranda furnished this Board by the trustees of the bondholders, earned, in excess of expenses and interest on its debt,

since Feb. 1, 1758, when it came into their possession, the annual interest on a little less than \$2,000,000 at six per cent. Besides making extensive improvements and additions to property, specified in the memoranda referred to, the trustees have paid off an underlying debt of \$52,230 from the net earnings. Based upon its earnings, the property would now seem to be worth in the neighborhood of \$2,000,000 over and above its indebtedness. The road is operated wholly independently of the New-York and New-England, and in connection with other and competing companies. As a contributing addition to the present road, its indirect value, as increasing the earning capacity of the latter, would be very considerable.

As to the value of the Waterbury extension, connecting as it would the New-York and New-England with the Dutchess and Columbia, and, by means of this last, with the Erie Road, the members of this Board have no peculiar means of forming a judgment. The unfinished road has now cost \$50,000 per mile, and it is estimated that it will cost \$25,000 per mile more to complete it. In Exhibit No. 6, page 18, it is entered among the assets of the company at \$11,000 per mile; as that sum, with the additional amount of \$25,000 per mile necessary to complete it, will bring its cost to the arbitrary appraised valuation of \$36,000 per mile. The value of this extension, however, lies in its earning capacity in connection with the other and completed portions of the line. The managers of the property express confidence that this would prove very great.

THE MANAGEMENT.

A thorough inspection of the road, made personally by the members of this Board, and under its direction by Mr. John B. Winslow, formerly superintendent of the Boston and Lowell Road, an expert whose authority in such matters cannot be questioned, showed conclusively that it is well managed, that an excellent discipline prevails among its employés, and that its expenditures are judiciously and carefully made. The condition of the property has greatly improved in all respects within the last few years, except on that portion of the road in the State of Connecticut. This the members of the Board had not inspected before, and

were consequently without data for comparison. It is, however, a very difficult section of road to maintain, and now requires immediate attention and outlay at many points. In Massachusetts, however, the improvement in the road-bed, tracks, buildings, rolling-stock, and shops is, considering the means at the disposal of the company, highly creditable.

Hitherto the road has been entirely sustained on the profits of its local business; and the members of this Board are not in position to express any decided opinion as to whether that business has been developed with perfect judgment, and to its full extent, or otherwise. Those managing the affairs of the company have recently also made an effort to secure business by means of an all-rail through connection beyond and around New-York City. It is very questionable whether this, as yet, has resulted in any profit. Nevertheless, it was an experiment which those intrusted with the management would seem to have been justified in making, and to which they were in some degree compelled. They ventured their own means in its development; and its failure would be felt by them personally more than by the corporation, which, indeed, seems to have risked nothing but the proof of its inability to develop a necessary but then unremunerative through business.

The books and accounts of the corporation are kept in detail, and on the most approved plan, except in one important particular. Bills contracted during each month are not entered up at its close, unless they have been paid. In order that the liabilities of the company may distinctly appear, they should be entered up monthly, whether paid or not. This objectionable practice is not, however, peculiar to the New-York and New-England among the Boston roads. The vouchers and papers of the company will, in completeness and accuracy of arrangement, compare favorably with those of any corporation in the State. Under the system in use in these respects, fraud or suppression would only be possible through a conspiracy to that end, which would have to include a number of responsible officials.

All desired information on other points, not matters of estimate or opinion, connected with the affairs of this corporation, can, it is believed, be derived from a study of the figures and documents herewith submitted, and the annual

returns included in the Railroad Commissioners' Reports for the last two years. In closing this Report, however, the Commissioners deem it but justice to say one word further of the present management. As is well known, those in control of the corporation which have heretofore been in possession of this property have been the subject of much, and not undeserved, adverse criticism. It would not be unnatural if a portion of the suspicion excited by their proceedings had descended to their successors. Meanwhile the recent investigation has been made as thorough as, with the aid of experts and accountants, it was in the power and knowledge of the members of this Board to make it. Their chief apprehension has been throughout, lest, in its results, it should be generally looked upon as what is known as a "whitewashing" process. It hardly needs to be said, that, to Commissioners and the like public officials, it is much more agreeable, and requires far less courage, to unearth frauds and make exposures, than to pronounce affairs properly conducted. In the present case, however, the members of the Board wish distinctly to say that every facility for obtaining information, and arriving at correct judgments, has been afforded them throughout their inquiry; and that they have, in the course of it, been most favorably impressed as respects the honesty and excellent intentions of the present New-York and New-England direction. Whether those composing it will be found justified in their expectations by the result, is a matter upon which it would be wholly out of place for the members of this Board to express any opinion. That they, however, have faith in their enterprise, and are honestly and strenuously exerting themselves to develop it in a business-like way, was apparent throughout the examination, and equally impressed every person engaged in it.

C. F. ADAMS, JR.,

A. D. BRIGGS,

FRANCIS M. JOHNSON,

Railroad Commissioners.

EXHIBIT No. 1.

Copy of Letter sent the Governor and Council by the Trustees Berdell Mortgage, January, 1874.

[Copy.]

BOSTON, Jan. 15, 1874.

To His Excellency the Governor and the Honorable Council of the Commonwealth.

GENTLEMEN,—Desirous as we are of performing our full duty, we address you as representing and controlling the largest interest in the bonds secured by the mortgage by the Boston, Hartford, and Erie Railroad Company to Berdell and others, of which we are now the trustees.

We took possession of the property, for the purpose of foreclosing the mortgage, in August, 1871.

At that time and since, we have received all the assistance which we have asked from the several courts having jurisdiction, and from the bondholders, including the Commonwealth; and the foreclosure was perfected in April, 1873, and the meeting of bondholders duly advertised and held in exact accordance with the provisions of the instrument; and the new corporation authorized thereby was organized under the name of the New-York and New-England Railroad Company.

Subsequent legislation by the four States in which the property is situated, ratified and confirmed the validity of the proceedings. The task of the trustees was then accomplished; and they were, and ever since have been, desirous of having their accounts audited and settled,—of being relieved of further liability, and of conveying the property by deed to the new corporation as provided in the mortgage. Thus far they are disappointed, and are still in the management of the road and of its leasehold interests.

It is evident that continued management of such property by trustees cannot be for the interest of its owners or of the public.

Legal inability to make contracts of any definite duration is of itself a great obstacle in securing skilled and trained assistance in the various departments upon which a successful administration of a railroad depends in great measure. In the present case, underlying liens exist; and, indeed, a large and important portion of this property is managed by trustees of another and underlying mortgage. We are without means to extinguish these liens; but that they should be paid can admit of no doubt. The bonds secured by this mortgage are now only of use by conversion into stock of the new corporation, which owns the entire property, subject, of course, to these liens.

It seems to us, therefore, that those interested in the New-York and New-England Railroad Company should, —

1. Obtain conveyance and possession of the property held by us;
2. Divest it of all underlying liens;
3. Obtain possession of that portion held by the trustees of the (underlying) Hartford, Providence, and Fishkill mortgages, and then —
4. Complete and equip the unfinished portion.

To accomplish the first end, the trustees must be furnished with the funds necessary to repay to contributing bondholders, including the Commonwealth, the amount advanced by them to enable the trustees to obtain possession in 1871; which, with interest, amounts to about \$200,000, and with funds to liquidate the indebtedness incurred by them in the operation of the road with safety. The amount cannot be stated exactly, but approximates \$200,000, and includes the cost of finishing the Willimantic division, of rebuilding over forty bridges, of replacing the passenger and freight houses in Boston destroyed by fire in 1872, the losses on freight burned at that time, the addition of rolling-stock of a cost of over \$150,000, and the renewal of more than twenty miles of track.

Possession of the property held by us will include the road —

From Boston (Summer Street) to Willimantic	86 miles.
East Thompson to Southbridge	17 “
Brookline to Woonsocket	34 “
Springvale to Dedham	2 “
<hr/>	
Say of completed and equipped road	139 miles.
And of road two-thirds graded, from Waterbury, Conn., west.	65 “
<hr/>	
Or in all of	204 miles.

Of road, beside the management of the leasehold interest in the Norwich and Worcester Railroad and the Norwich and New-York Transportation Company.

To accomplish the next object, viz., to divest this property of all underlying liens, will require about \$1,000,000. These liens comprise the small outstanding parcels of seven different mortgages issued by the Boston, Hartford, and Erie, and by preceding corporations; over 7,000,000 of which bonds have been retired, and are in our possession. To cancel what are still outstanding, with accrued interest, will require, say \$742,500; and the receiver's certificate of indebtedness (issued under authority of court, and declared to underlie this mortgage, being for the completion of the road between Putnam and Willimantic), which matured on the first instant, will require the balance, \$250,000, for principal, and \$7,500 interest to Jan. 1, 1874.

\$1,400,000, therefore, will be necessary to obtain possession, and to own free of encumbrance, the road above described.

The third object, viz., the possession of the Hartford, Providence, and Fishkill Road, upon which this is a second mortgage, will require

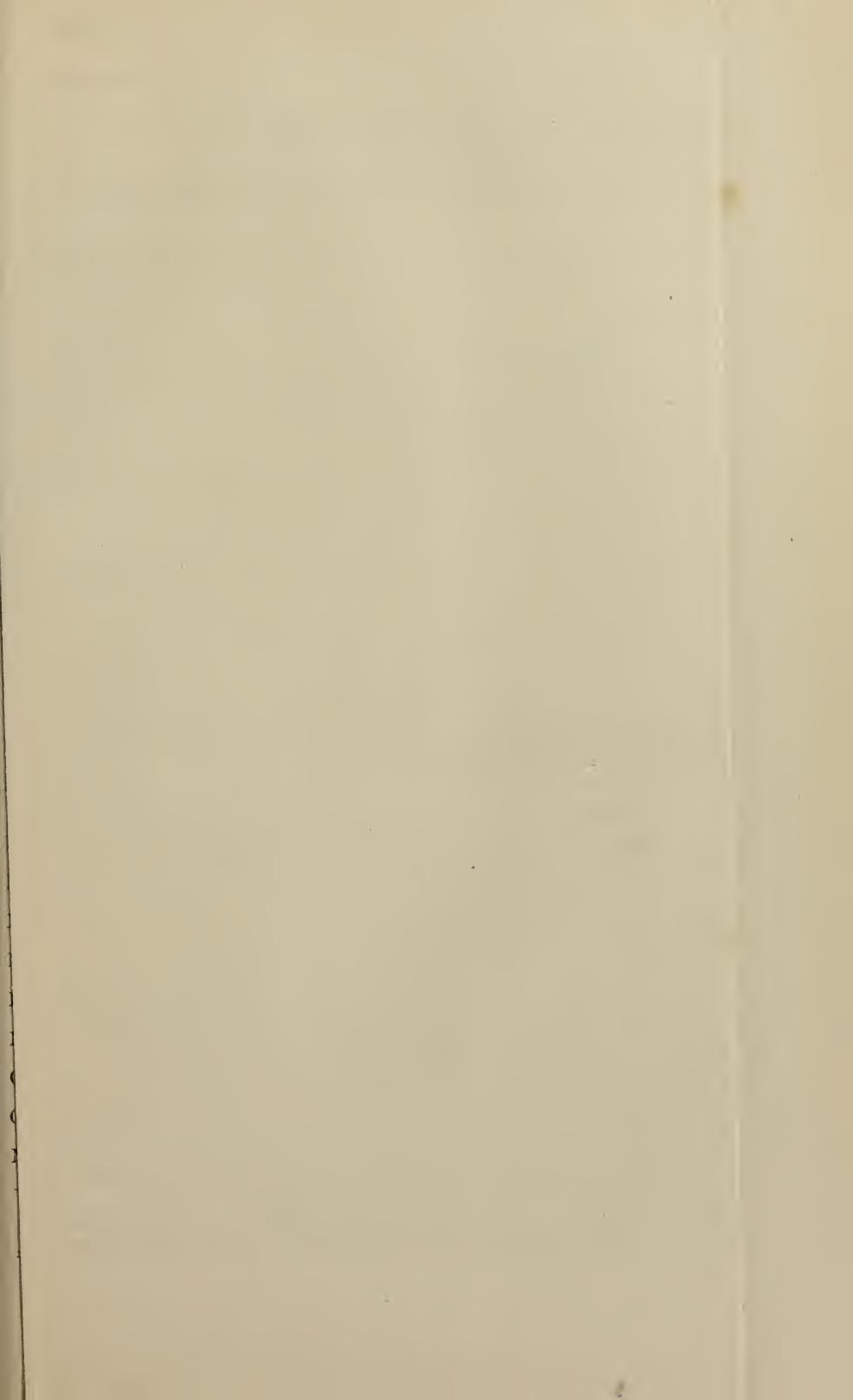
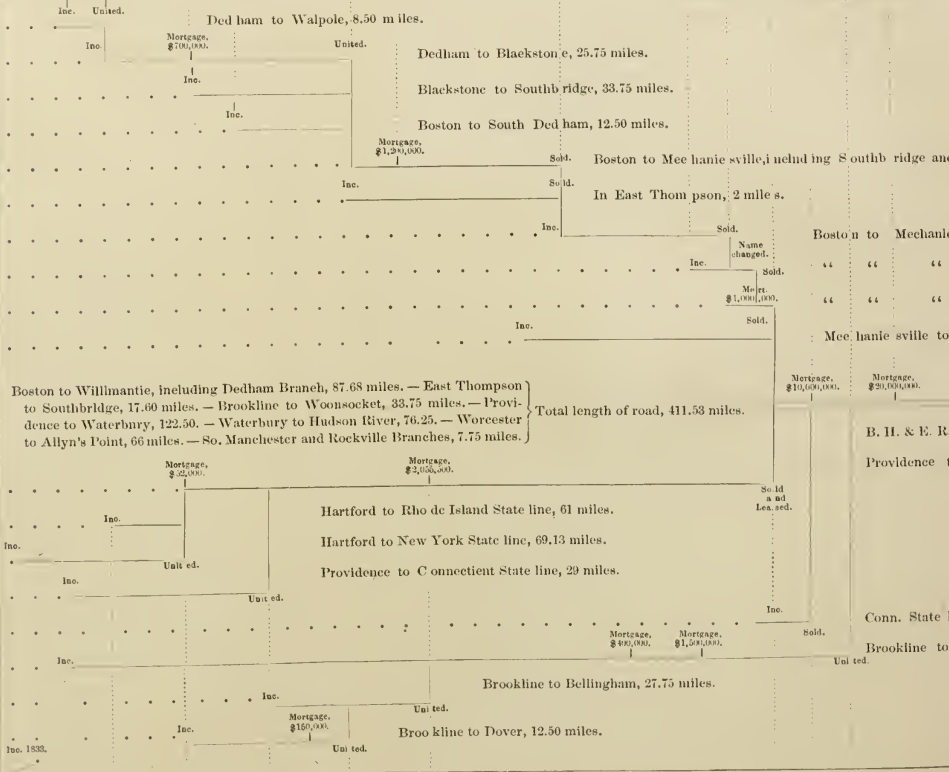


EXHIBIT No. 2.

GENEALOGICAL CHART.

NEW-YORK AND NEW-ENGLAND RAILROAD.

RAILROAD COMPANIES.	1845	'46	'47	'48	'49	'50	'51	'52	'53	'54	'55	'56	'57	'58	'59	'60	'61	'62	'63	'64	'65	'66	'67
WALPOLE																							
NORFOLK COUNTY																							
SOUTHBRIDGE AND BLACKSTONE																							
MIDLAND																							
BOSTON AND NEW-YORK CENTRAL																							
EAST THOMPSON																							
MIDLAND [No. 2].																							
MIDLAND LAND-DAMAGE CO.																							
SOUTHERN MIDLAND																							
THOMPSON AND WILLIMANTIC																							
NEW-YORK AND NEW-ENGLAND } Formerly BOSTON, HARTFORD, AND ERIE }																							
HARTFORD, PROVIDENCE, AND FISHKILL,																							
HARTFORD AND PROVIDENCE																							
NEW-YORK AND HARTFORD																							
PROVIDENCE AND PLAINFIELD																							
B., H., AND E. EXTENSION																							
NEW-YORK AND BOSTON																							
CHARLES-RIVER																							
CHARLES-RIVER BRANCH																							
NORWICH AND WORCESTER																							
	1845	'46	'47	'48	'49	'50	'51	'52	'53	'54	'55	'56	'57	'58	'59	'60	'61	'62	'63	'64	'65	'66	'67



\$2,000,000 more. The principal of the debt is \$2,055,500; but there are sinking-funds applicable to portions of the principal, which are believed to be sufficient to reduce the net debt (after auditing the accounts of the trustees in possession, and providing for any amounts found due to them) to the amount mentioned. That road is 122 miles in length, from Providence, R.I., to Waterbury, Conn., finished, fully equipped, and earning about \$1,000,000 per annum gross. The interest on the mortgage is paid by the trustees in possession, and the debt is not increasing. The amount of it, say \$16,000 per mile, bears a very small proportion to the cost or to the value of such property.

Three and a half million dollars, therefore, is requisite before the New-York and New-England Railroad Company can own unencumbered the property already in existence, — say 260 miles of completed and equipped railway in the centre of New England, earning gross about \$2,000,000 annually, and 65 miles of road upon which \$2,000,000 has already been expended, the completion of which, to a connection at the Hudson River, will raise the existing property from the character of a local road to that of a principal connection with the coal, the oil, and the grain regions of the West. Its business is already assured by the interests of an independent system of railroads west of the Hudson River, which now has no outlet into New England.

To complete the property, and to pay for the necessary terminal facilities at Boston, at Worcester, and at Providence, and to equip it thoroughly, will require the balance of the \$10,000,000 which the new corporation has been by legislation already authorized to borrow upon its own mortgage-bonds.

Suggestions upon this point are not perhaps within the scope of our duty as trustees; but that the New-York and New-England Railroad Company (in which the Commonwealth is so largely interested) should obtain possession of the property already in existence, and relieve it of underlying liens, is, to us, very apparent; that the security which the property affords to the lender of the requisite money or credit is absolute, is unquestionable; and that the parties in interest should move promptly is in our judgment undeniable.

This communication is made for the single purpose of advising you of the situation; and we will gladly attend, or give any details, or make further suggestions, whenever apprised of a wish on your part to obtain them.

Very respectfully, your obedient servants,

(Signed)

WM. T. HART.
CHARLES P. CLARK.

EXHIBIT No. 3.

Statement of Extraordinary Expenses, and of Improvements and Addition to Property, of the New-York and New-England Railroad, from August, 1870, to Sept. 30, 1876.

EXTRAORDINARY EXPENSES ATTENDING FORECLOSURE BERDELL MORTGAGE.

RECEIVERS. In charge Aug. 1, 1870, to September, 1871,—

Pay	\$48,866 66	
Counsel fees	43,801 72	
Expenses court, printing, &c. . . .	10,652 77	
	<hr/>	\$103,321 15

And by order of court,—

Norwich and Worcester, back balances and deficit	106,816 71	
Boston, Hartford, and Erie Railroad Company, to maintain organization,	9,907 11	
	<hr/>	\$220,044 97

TRUSTEES. In charge September, 1871, to August, 1875,—

Total compensation	\$81,836 80	
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By order of court,—

To sundry parties to the foreclosure suit and to prior trustees, to bondholders' committee, &c.	41,767 54	
Trustees' counsel fees	79,601 00	
Court and legal expenses	11,131 33	
Office, travelling, examiners' and reporting fees (less paid by assignees)	25,096 73	
Advertising foreclosure meetings, and expenses organizing New-York and New-England Railroad	4,866 33	
	<hr/>	244,319 73

ASSIGNEES IN BANKRUPTCY,—

For equity of redemption, &c.	100,000 00	
---------------------------------------	------------	--

Total expenses attending foreclosure, &c. \$564,364 70

Add,—Expended by receivers, completion road between Putnam and Willimantic 250,000 00

A. Expended for construction, exclusive of bridges, Aug. 1, 1871, to Oct. 1, 1876 293,249 96

Amount carried forward \$1,107,614 66

Amount brought forward, \$1,107,614 66

B. Expended for equipment, Aug. 1, 1871, to Oct.
1, 1876 270,608 57

C. Expended for stone bridges, abutments, arches,
and viaducts, Aug. 1, 1871, to Oct. 1, 1876 . 49,492 24

C. Expended for rebuilding 82 wooden bridges,
Aug 1, 1871, to Oct. 1, 1876 140,340 71

\$1,568,056 18

In addition, there were, between Aug. 1, 1871,
and Oct. 1, 1876 (E), 228,635 ties laid,
costing \$97,547 17

And during the same period was laid,
costing (D), exclusive of old, 4,955
tons rails, new and re-rolled . . . 195,050 75

* 292,597 92

\$1,860,654 10

[Letters refer to schedules in Annual Report of New-York and New-England Railroad Company for year ending Sept. 30, 1876, pages 24 to 40 inclusive.]

* Not treated as an extraordinary expenditure by Commissioners in any computation made by them in Report.

EXHIBIT No. 4.

Bonds outstanding which were issued under Mortgages made on different Portions of the Road prior to the Berdell Mortgages:—

Norfolk County Railroad Company bonds (interest due from 1854, at 6 per cent)	\$3,600 00
Boston and New-York Central Railroad Company bonds (interest due from 1855, at 6 per cent)	28,000 00
Charles-River Railroad Company bonds (interest due from 1866, at 6 per cent)	13,200 00
New-York and Boston Railroad Company notes and bonds (interest due from 1866, at 6 per cent)	103,700 00
Boston, Hartford, and Erie Railroad Company bonds (interest due from 1866, at 7 per cent)	280,000 00
Simple interest on the above to Jan. 31, 1877	341,922 00
	<hr/>
	*\$770,422 00

The \$3,600 Norfolk-County Railroad bonds still outstanding are provided for by funds in the hands of J. W. Converse of Boston, as trustee: the bonds were advertised for several years ago, but not presented. The total amount of the above bonds, with interest, is treated as a liability of the company in determining the value of the property of the corporation over its debts. There are other claims, for land-damages, &c., which are in litigation, not exceeding \$50,000.

* These bonds have not been carried on the books of the company, because the extent of the company's liability has not been determined. The counsel of the company advises that some portion of them were not legally issued.

EXHIBIT No. 5.

Hartford, Providence, and Fishkill Railroad Company Memoranda.

ASSETS.

Roadway from Providence to Hartford, 122.365 miles, estimated at \$36,000 per mile					\$4,405,140 00
Equipment, as per appraisal	} From Returns, { 1876.	}			503,105 00
Machinery, tools, and station fixtures					58,228 16
Materials for repair of roadway					94,711 70
Fuel and supplies					64,729 73
Due from companies and individuals					20,293 83
Sinking-fund in hands of trustees applied or applicable to reduction of bonds					316,807 36
Total Assets					<u>\$5,463,015 78</u>

LIABILITIES.

Bonded debt	\$2,055,500 00
Floating liabilities *	359,822 03
Due on account of Tunnel construction *	26,503 45
Total Liabilities,	<u>2,441,825 48</u>
Balance of Assets over Liabilities,	<u>\$3,021,190 30</u>

* Represented by cash assets.

EXHIBIT No. 6.

New-York and New-England Railroad Company Memoranda, as of Jan. 31, 1877.

ASSETS.

Road from Boston to Willimantic	85.75 miles.
Woonsocket Division	33.75 "
Dedham Branch	2. "
Southbridge Branch	17.50 "

Total	139. miles
Estimated at \$36,000 per mile	\$5,004,000 00

Distributed as follows : —

Grading and masonry, bridging, superstructure, land, land-damages, and fences .	\$4,756,965 81
Passenger, freight, and water stations, and fuel-sheds	94,400 00
Engine-houses, car-sheds, and turn-tables, .	25,200 00
Machine-shops, including machinery and tools (machine-shops, \$85,400; machinery and tools, \$42,034.19)	127,434 19
	<hr/>
	\$5,004,000 00
Highland-Lake Grove property	26,443 20
Dwelling-houses	7,600 00
Equipment, as per appraisal	521,550 00
Supplies on hand	12,006 37
Balances due from current accounts	3,060 45
Cash on hand	57,799 66
	<hr/>
Total assets	\$5,632,459 68

LIABILITIES.

First mortgage-bonds	\$343,000 00
Notes payable	215,544 09
Notes due in September, 1876	513,500 00
Bonds outstanding, with interest, which were issued prior to the Berdell bonds (as per Exhibit No. 4)	770,422 00
Total liabilities	<hr/> 1,842,466 09

Balance of assets over and above liabilities	\$3,789,993 59
Balance of assets over and above liabilities, Hartford, Providence, and Fishkill Railroad Company, as per Exhibit No. 5	3,021,190 30
Value of unfinished road from Waterbury to Hopewell Junction, 65 miles, at \$11,000 per mile	715,000 00

Total property and assets above liabilities, not treating Berdell bonds or stock as a liability \$7,526,183 89

EXHIBIT No. 7.

Equipment as per Appraisal.

31 locomotives	\$215,200 00	
44 passenger-cars	115,945 00	
2 parlor-cars	11,000 00	
26 baggage, mail, and express cars	47,330 00	
113 8-wheel freight-cars	48,025 00	
133 8-wheel flat-cars	36,575 00	
29 8-wheel dump-cars	9,425 00	
13 4-wheel box-cars	2,600 00	
4 4-wheel saloon-cars	1,200 00	
130 4-wheel dump-cars	20,800 00	
1 derrick-car	300 00	
6 8-wheel box-cars, with air-brake	6,600 00	
4 8-wheel milk-cars, with air-brake	3,200 00	
4 8-wheel meat-cars, with air-brake	2,800 00	
1 8-wheel tool-car	300 00	
1 4-wheel snow-plough	250 00	
Total equipment		\$521,550 00

EXHIBIT No. 8.

Memorandum of Settlements with Norwich and Worcester Railroad Company on Lease Account.

To pay dividends of, —	Deficiency.	Surplus.
July, 1870 *	\$106,816 71	
January, 1871	10,341 77	
July, 1871	54,311 81	
January, 1872, settled with July dividend .		
July, 1872	12,666 93	
January, 1873		\$2,169 00
July, 1873	18,099 84	
January, 1874	9,909 05	
July, 1874	19,857 30	
January, 1875		1,019 38
July, 1875	12,153 16	
January, 1876 †	38,879 79	
July, 1876	5,342 83	
January, 1877		14,449 45
Total amount paid ‡	\$288,379 19	
Total amount received	17,637 83	17,637 83
Balance paid over amount received	\$270,741 36	

* This deficiency covered extraordinary disbursements in building a new wharf at Norwich, which were said to have been authorized by the Boston, Hartford, and Erie Railroad Company prior to the transfer of the property to the Receivers.

† This deficiency, caused by an expenditure of this amount for new steel rails, charged to operating expenses.

‡ These deficiencies, prior to 1875, include annual payments of ten thousand dollars to a sinking-fund held by the Commonwealth of Massachusetts, which is now practically equal to the debt, and payments upon it have therefore ceased.

EXHIBIT No. 9.

*Balance-Sheet New-York and New-England Railroad Company,
as per their Books, Jan. 31, 1877.*

ASSETS.

Cost of road as represented by Berdell bonds . . .	\$20,000,000 00
Cost of new construction and real estate . . .	239,033 22
Cost of new equipment	95,923 35
Paid underlying liens, created by receivers and trustee .	626,772 90
Paid assignees for title to property	100,000 00
Operating expenses	241,830 54
New steel rail laid (1,000 tons)	63,303 04
Interest paid	2,404 71
Supplies on hand	12,006 37
Due from companies and individuals	47,223 04
Due from agents and conductors	7,575 70
Cash	57,799 66
	<hr/>
	\$21,493,872 53

LIABILITIES.

Capital stock issued	\$5,685,000 00
Berdell bonds outstanding *	14,315,000 00
First mortgage-bonds, due 30 years from Jan. 1, 1876	343,000 00
Notes payable	215,544 09
Notes due September, 1876	513,500 00
Due to companies and individuals . . .	51,738 29
Coupons unpaid	17 50
Earnings	320,005 01
Profit and loss	50,067 64
	<hr/>
	\$21,493,872 53

* Convertible into New-York and New-England Railroad Company stock, but not otherwise a liability.

Estimates of Geo. A. Parker of the Cost of completing the New-York and New-England Railroad from Waterbury to the Hudson River.

BOSTON, March 18, 1878.

W. T. HART, Esq., *President New-York and New-England R.R. Co.*

Dear Sir, — I have your favor of the 16th instant, in which you ask me to “advise you briefly of the amount of my estimate of the cost of completing the unfinished portion of the New-York and New-England Railroad between Waterbury and the Hudson River.”

The estimate to which you allude was made in September, 1876, after a very thorough and careful examination. It provided for a finished single-track road, with steel rails, the lines, grades, and workmanship conforming to the original plan, profile, and specifications, and included the cost of ferry accommodations at Fishkill Landing, and the Dutchess and Columbia Railroad connections at Hopewell Junction and the Hudson River. The amount of the estimate was \$1,600,000. At the present time the cost of labor and materials is very much reduced; and, on that account, this estimate may now require to be considerably diminished.

Respectfully yours,

GEO. A. PARKER.

BOSTON, March 20, 1878.

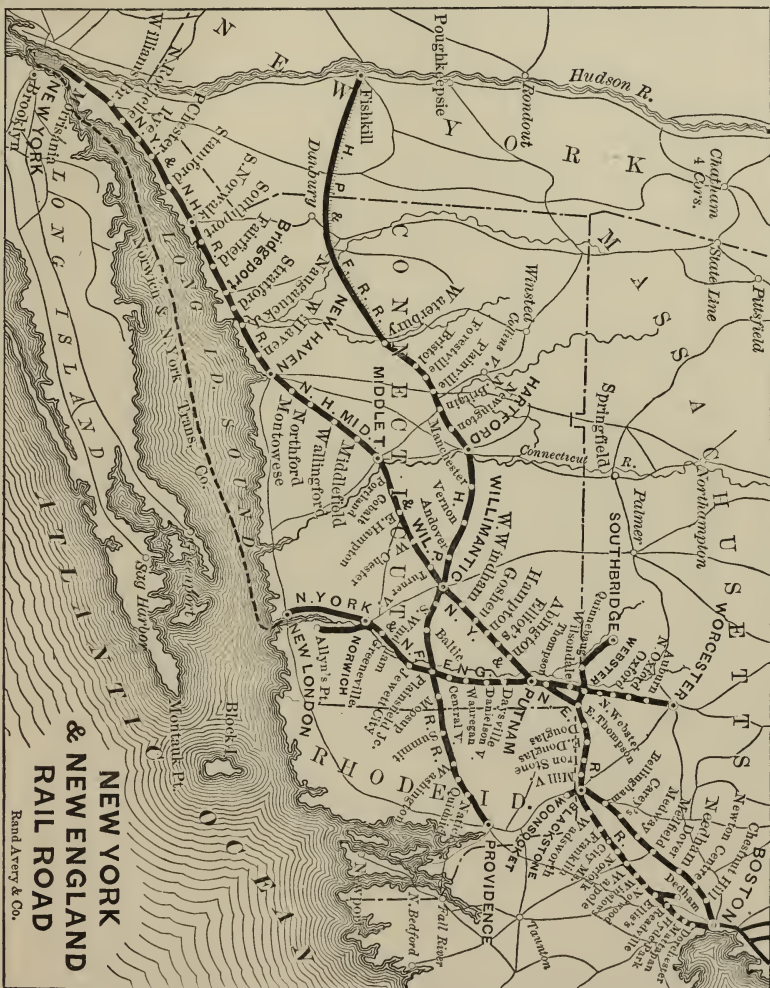
W. T. HART, Esq., *President New-York and New-England R.R. Co.*

Dear Sir, — In a communication just received, you ask if I am willing to “support my opinion, lately expressed to you, of the cost of completing the New-York and New-England Railroad for sixteen hundred thousand dollars, by a *bona fide* proposal to take the contract for that sum.”

While I deem it my duty to say that your Company would not be justified in contracting for the work at that excessive figure, I have no unwillingness to reply affirmatively to your question. I will, if called upon, contract to finish the road for the sum named, and will furnish ample security for the fulfilment of such contract.

Respectfully yours,

GEO. A. PARKER.



NEW YORK & NEW ENGLAND RAIL ROAD

Rand Avery & Co.

3 0112 105324708

